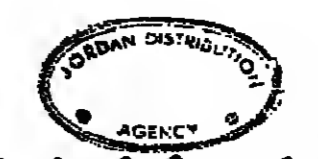


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ESTABLISHED 1887



Alghan rebels, in Pakistan, attend a rally after rejecting the government cease-fire proposal.

Kabul Bid Rejected By Rebels

Guerrillas Vow To Continue War

By Kamran Khan
Washington Post Service
PESHAWAR, Pakistan — Tens of thousands of Afghan refugees and guerrillas have refused a call by Afghanistan's Soviet-backed government to lay down their weapons and join in a Communist-sponsored "national reconciliation."



Chinese buying Beijing newspapers for news about the resignation of Hu Yaobang.

Iranians Press Raid On Basra

Claim Advances 'Deep Inside Enemy Lines'

By John Kifner
New York Times Service
NICOSIA — Iran claimed Sunday that its troops had advanced "deep inside enemy lines" in heavy fighting close to an oil refinery just south of the major southern Iraqi city of Basra.

LATE NEWS

Israel Sets Sum In UNIFIL Death

TEL AVIV (UPI) — Israel has offered to pay a "substantial sum" to the family of an Irish officer in the United Nations peacekeeping force who was killed by Israeli troops in a "shameful mistake" in Lebanon, Israeli radio said Sunday.

Contra Arms Deals Traced to Lisbon

By Karen DeYoung
Washington Post Service
LISBON — Portuguese arms and ammunition worth \$5.6 million, obtained with apparently false documents by U.S.- and Canadian-based companies, were purchased in 1985 and 1986 for the use of rebels in Nicaragua, according to U.S. and Portuguese sources.

Zhao Declares Hu's Removal Signals No Change in Policy

BEIJING — Zhao Ziyang, the acting Communist Party leader, said Sunday that the removal of Hu Yaobang as party leader would have no effect on Chinese policies and that fears of political instability were unwarranted.

In France, a Bit of Charity Creeps In With the Cold

By Richard Bernstein
New York Times Service
ISSY-LES-MOULINEAUX, France — At noon, there were several hundred people, among them unemployed artisans wrapped in leather jackets and scarves, homeless men with tattoos and five days of stubble, women with children in tow, crowded into the line at the Restaurant of the Heart.

Public More Alert To Social Misery

People come each day to fill plastic bags with frozen chicken, boxes of cereal, tangerines and bread. They show their pink identification cards to the center's director, Claude Colombani, a computer operator who has been out of work for two years, or to Albin Arman, a 54-year-old self-described bobo who says he has been sleeping outdoors, even in the bitter cold, for more than a year.

Kenya Abuses Dissidents, U.S. Legislator Asserts

UNITED PRESS INTERNATIONAL
NAIROBI — An American congressman involved with U.S. relations with Africa sharply criticized Sunday the human rights record of Kenya, one of the major recipients of U.S. aid in Africa, and said he had witnessed political intimidation in Nairobi.

GENERAL NEWS
A West German businessman was abducted by gunmen near the airport in Beirut. Page 2.
The Khasi disrupted a match aimed at attracting blacks to a Georgia county. Page 3.
Indian police entered the Sikhs' Golden Temple and arrested several persons. Page 4.
President Corason Aquino offered peace talks to Muslim rebels whose attacks last week killed 46 persons. Page 2.
BUSINESS/FINANCE
Fermesa AB's managing director resigned. Page 13.
USX Corp. and the steel workers' union reached a tentative agreement that would end a lengthy strike. Page 12.

Documents made available in Lisbon, which were supported by interviews here and in Washington, suggest that the arms purchases were handled by the same network of retired military and intelligence officers that was involved in the Reagan administration's secret arms sales to Iran and efforts to resupply the Contras.
Portugal has emerged as an important link in the Iran arms deal and the effort to resupply the Contras. Iran-bound U.S. weapons passed through Lisbon on their way from Israel and from the United States itself, according to records and sources in Washington.
The Portuguese government has said that whatever role its country played in either operation was an unwitting one.
The Portuguese government approved the 1985-86 arms sales based on "end-user certificates" purportedly supplied by the Guate-

mal government and submitted in Lisbon through a local arms dealer.
The certificates list requested types and quantities of arms and ammunition, and state that the material is for the exclusive use of the Guatemalan military. Typed on official stationery, the certificates bear the signature of General Cesar Augusto Caceres Rojas of the Guatemalan Army.
Last week, Guatemalan officials denied any connection with the shipments. President Marco Vin-

Guerrilla officials said Sunday that Afghan troops attacked rebels in several parts of Afghanistan despite Kabul's unilateral declaration of a cease-fire. The Associated Press reported from Kabul.
[He said there had been several attacks by guerrillas since the cease-fire proclaimed by the government went into effect at midnight Wednesday. He gave no details.]
[Guerrilla officials said Sunday that Afghan troops attacked rebels in several parts of Afghanistan despite Kabul's unilateral declaration of a cease-fire. The Associated Press reported from Kabul.]

Some people are concerned that this meeting will affect the stability and continuity of our policies, Mr. Zhao said, adding, "This sort of concern is unnecessary. Exactly the opposite, this meeting was aimed at ensuring the continuity and stability of the party's policies."
Press Silence
Daniel Southerland of The Washington Post reported from Beijing: Two days after Mr. Hu was forced to resign for mistakes committed on "major issues of political principles," the government-controlled press has given no further explanation. The press has acted almost as if nothing had happened.
Diplomats said this silence may reflect the haste with which top leaders decided to force Mr. Hu to resign. They suggested that the leaders had not resolved all their

attacks would not be allowed to get out of hand.
Mr. Zhao said "leftist" methods would not be used to deal with the problem of "bourgeois liberalism" and emphasized that the party greatly respected intellectuals.
Western diplomats said recent nationwide demonstrations by students calling for Western-style democracy and freedoms had apparently precipitated the leadership crisis. They added that Mr. Hu's errors appeared to have been made in the ideological field.
Mr. Zhao emphasized that the personnel changes were not the beginning of another political campaign against opponents.
"We are now a mature party and we don't engage in political campaigns," he said.
The agency's description of the meeting said the president "expressed praise for the Iraqi troops' heroic confrontation and defeat of the rancorous Iranian regime's aggression during the recent battles."
In Tehran, the Iranian president, Ali Khamenei, told a visiting delegation of Shiite Muslim clergymen that "the throat of the aggressor Iraqi regime had never before been so tightly gripped."
Both sides reported that Iran repeatedly struck the key southern Iraqi port of Basra with missiles and artillery fire. Iran claimed much of the population was fleeing. Basra, with a population of 1.5 million, is Iraq's second-largest city.
Iran said Sunday that its troops had established positions only 400 yards (365 meters) — within small-arms range — from an Iraqi oil refinery and petrochemical plant at

Ecuador's Leader Freed In Exchange for General

By Joseph B. Treaster
New York Times Service
GUAYAQUIL, Ecuador — The president of Ecuador, León Febres Cordero, was released by a group of air force commandos after agreeing to free an imprisoned air force general and promising there would be no retribution against his abductors.
Mr. Febres Cordero said Saturday that he was punched, kicked and told repeatedly he was going to be killed during the 12 hours he was held captive Friday at the Taura Air base near here.
Lieutenant General Frank Vargas Pazos, a former air force commander, arrived at the air base about an hour before Mr. Febres

2 Jailed Shiites Part of Plot in Europe, Officials Fear

By Roberto Suro
New York Times Service
ROME — Two Lebanese men arrested last week carrying explosives through the Milan and Frankfurt airports may have been part of a new terrorist offensive planned by radical Lebanese Shiites, according to American and Italian officials.
Western intelligence agencies are reassessing reports received in recent weeks indicating that Shiite groups based in Lebanon were plotting a series of terrorist actions in Europe, the officials said.
Those and other reports caused security forces in Italy and other parts of Europe to go on a state of heightened alert that may have been responsible for the arrests of



Two homeless Parisians spent the night on a ventilation grid instead of going to a shelter.

There are 630 Restaurants of the Heart throughout France serving 650,000 people every day. No questions are asked. The number of family members is simply checked by people like Mr. Colombani or Mr. Arman, who examine each visitor's Social Security papers.
The restaurants were created by a popular French actor and comedian, Coluche, who died last year in a motorcycle accident. Coluche had enlisted the support of many French entertainers for the establishments.
See FRANCE, Page 4

of political detainees, Parliament "losing the power it once had" and the "stripping" of the independence of the attorney general.
Observers in Nairobi say Mr. Wolpe's criticism was probably the harbored by an American official visiting this pro-Western country.
Mr. Wolpe said he was not seeking confrontation but wanted to "sound a warning at this point that the trends in evidence could erode the positive relationship" between Kenya and the United States.
The congressman, who is on the last stop of an African tour that also included Botswana and Zimbabwe, said that planned meetings, including one with a member of Parliament, were called off at the last minute or broken up because of "state interference."
"Police stopped a meeting with a church leader," Mr. Wolpe said, "and the leader was advised it was not in the interest of the state to continue our meeting."
Mr. Wolpe, who had planned to meet with President Daniel arap Moi and two cabinet ministers, said he was told the officials were "not available."
Mr. Wolpe declined to say whether he felt Secretary of State George P. Shultz had failed to address the human rights issue during his recent visit to Kenya.
Mr. Wolpe called for the release of a university lecturer, Maina wa Kinyari, who was sentenced to six years' imprisonment in 1982 on charges of "possession of seditious publications."
Dozens of Kenyans have been arrested in recent months during a government crackdown on dissidents.

Italy said Sunday that the two Lebanese men, the officials said.
The two men are Bashir al-Khodri, who was arrested in Milan on Monday, and Mohammed Ali Hamadei, who was arrested in Frankfurt on Tuesday. Both men have known or presumed ties to Shiite Muslim organizations that have attacked U.S. targets in the past, officials say.
The U.S. Justice Department has said it would seek the extradition of Mr. Hamadei in connection with the hijacking of a Trans World Airlines jet to Beirut in 1985.
[Sources said Sunday that the Justice Department would not seek the death penalty for Mr. Hamadei, perhaps paving the way for West Germany's extradition of the sus-



León Febres Cordero

President Febres Cordero was seized with nearly 30 others at the start of a military review at the Taura Air Base.
In an interview, he said that at the point when the commandos were to present arms, they opened fire in the direction of the president's party. Security guards next to him on the left and right were wounded, he said, and two others some distance away were killed. Ten other persons were reported injured in the incident.
"My first reaction was to shout, 'What the hell's going on here?'" Mr. Febres Cordero said. "Then my security people tried to throw me down."
Moments later, he said, two commandos trained their guns on him and yanked him to his feet. As they led him to a bus, he said, they kicked, shoved and cursed him.
"I said, 'Don't touch me, I'm the

pect, United Press International reported from Washington.
[Mr. Hamadei, 22, is one of four Lebanese Shiite Muslims charged by the United States with air piracy, murder and other criminal offenses in the TWA hijacking, during which a U.S. Navy seaman, Robert D. Stethem, was killed.]
[According to the sources, prosecutors said that to win Mr. Hamadei's extradition to the United States, they had to agree not to seek the death penalty.]
Italian officials say Mr. Khodr is known to have associated with seven men arrested in 1984 on charges of plotting to blow up the U.S. Embassy in Rome.
The Italian interior minister, Os-

car Luigi Scalfaro, said Friday that information supplied by Italian intelligence agencies seemed to establish a link between the two men. Mr. Scalfaro also said one hypothesis was that they had planned to attack a prominent visitor to Rome, King Hussein of Jordan ended a three-day visit to Rome on Saturday.
Other Italian officials and an American diplomat involved in anti-terrorism efforts said investigators had not determined with certainty whether Mr. Khodr and Mr. Hamadei were involved in the same operation.
Nonetheless, police and intelligence officials in Europe are acting on the assumption that the actions of the two men indicate "some kind

of a pattern," the U.S. diplomat said.
Antonio Badini, foreign affairs counselor to Prime Minister Bettino Craxi, said that, in light of the arrests, Italian anti-terrorism forces were re-evaluating a variety of warnings, threats and intelligence reports received in recent weeks.
Among the most disturbing reports was an intelligence report that five people had or were about to leave Beirut to undertake terrorist actions in Europe.
Judge Rosario Priore, a Rome magistrate involved in many terrorism prosecutions, said that investigators were particularly anxious to determine whether Mr. Khodr and Mr. Hamadei were going to use

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See FREED, Page 4

See FRANCE, Page 4

See CHINA, Page 4

See WAR, Page 4

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See TERROR, Page 2

West German Is Seized Near Airport in Beirut

Abduction Follows Arrest in Frankfurt Of a Lebanese Suspected in Hijacking

BEIRUT — Guatemalan kidnaped a West German citizen minutes after he left the Beirut airport, security sources said Sunday.

The sources said that several gunmen abducted Rudolf Cordes, an executive of Hoechst AG, the Frankfurt chemical and pharmaceutical company, in a mainly Shiite neighborhood near Beirut.

The kidnaping Saturday took place 15 minutes after Mr. Cordes arrived at the Syrian-guarded airport on a flight from Frankfurt, the sources said. It appeared to be the first abduction of a West German citizen in Lebanon.

Bonn Confirms Abduction

Robert J. McCartney of The Washington Post reported from Bonn.

An anonymous caller phoned the West German Embassy in Beirut on Saturday and said that a West German citizen had been abducted, but the caller made no demands, the Foreign Ministry said in a statement on Sunday.

A spokesman declined to speculate about the abductor's motives but another official said privately it seemed likely that the kidnaping was in retaliation for the arrest last week in Frankfurt of a Lebanese suspected of being a terrorist.

The ministry declined to identify the kidnaped man, but two West German newspapers reported he was Mr. Cordes.

A Hoechst spokesman said that Mr. Cordes was on a business trip to Beirut and that further details would be available on Monday.

Officials in Bonn said Friday that the government was concerned about the possibility that West Germans might be abducted by ex-

tremist groups seeking to exchange hostages for Mohammed Ali Hammadi, the suspect arrested Tuesday in Frankfurt.

The West German government last year reduced the number of people working at the embassy, at a cultural institute and at a German school in Beirut, officials said.

The Lebanese suspect was said to be carrying three bottles of a powerful explosive liquid when he arrived in Frankfurt from Beirut.

He was initially held on suspicion of planning to cause an explosion, but a fingerprint check later revealed that he was wanted by the United States for involvement in the hijacking of a TWA jet in June 1985.

Threat to Islamic Summit

The pro-Iranian Islamic jihad, whose terrorist activities have been targeted largely at U.S. and European interests, on Saturday turned its threats against Moslems by warning Kuwait not to let the Islamic summit meeting convene there, The Washington Post reported from Beirut.

Iran has objected strongly to Kuwait as the site of the scheduled Islamic summit, on Jan. 26, and has demanded that it be moved to a country that is impartial in the six-year Gulf war between Iran and Iraq.

Arabs Stab 2 Jews in Old Jerusalem; Police Move to Prevent Retaliation

JERUSALEM — Arab assailants stabbed two young Jewish brothers inside Jerusalem's Old City, and the authorities took precautions to prevent retaliation against Arabs.

Police detained at least 50 Arabs for questioning after the attack on Saturday, but released them later.



Police in Jerusalem arresting two Palestinians after the Jewish brothers were stabbed in the Old City. The authorities detained 50 Arabs for questioning, but released them later.

Arabs Stab 2 Jews in Old Jerusalem; Police Move to Prevent Retaliation

By Glenn Frankel
Washington Post Service

The assailants stabbed Avi in the neck and Shalom in the shoulder and then fled. The brothers managed to get the gate 500 yards (450 meters) away, where a police patrol called an ambulance. The fiancée was not hurt.

An official at Sha'are Zedek hospital said Avi had lost much blood from several neck wounds but was in fair condition after surgery. His brother's wounds were not considered serious.

Dozens of riot police massed outside Damascus Gate as a precaution against a repetition of the stone-throwing, vandalism and looting by Jewish crowds that followed the stabbing deaths of a Yeshiva student in the area in November. Three Arab youths were convicted of that murder.

A police spokesman said the brothers stabbed Saturday, Avi Ochayon, 25, and Shalom Ochayon, 16, were walking on a main street of the Moslem Quarter near the Damascus Gate when the older brother's fiancée when they were attacked from behind by two young Arabs.

Aquino Offers Talks After Moro Rebels Halt Attacks

COTABATO CITY, Philippines — President Corason C. Aquino offered peace talks Sunday to Moslem rebels who launched attacks last week after asserting she had shut them out of negotiations in favor of a rival rebel group.

At least 46 people were reported to have been killed and 89 wounded in the five days of attacks, which ended Saturday with an agreement on a temporary cease-fire.

But in Manila, the chief military spokesman said troops were on alert to prevent the violence from spreading to the capital.

Two Manila newspapers reported Sunday that the military feared the Moslem rebels might join forces with dissident officers and supporters of former President Ferdinand E. Marcos to try to block ratification of the draft constitution in the Feb. 7 plebiscite.

About 800 Marcos loyalists burned an effigy of Mrs. Aquino on Sunday during a Manila rally that was part of their campaign against the constitution, which guarantees Mrs. Aquino a six-year term.

In Cotabato, Mrs. Aquino offered peace talks to Haji Murad, deputy leader of the Moro Islamic Liberation Front. It was her fourth stop on a five-city weekend tour of Mindanao Island, where she sought support for the constitution.

Mr. Murad said he could not respond to the offer without contacting the head of the Moro Islamic Liberation Front, Hashim Salamat, who was in Saudi Arabia.

After the 10-minute meeting, Mr. Murad said that he had given Mrs. Aquino a flower "as the symbol of peace" and a position paper with his group's demands.

The government has focused its overtures on the rival Moro National Liberation Front in its efforts to end the 14-year Moslem insurrection.

Last month, the leader of the Moro National Liberation Front, Nur Misuari, agreed to drop demands for an independent state and to instead negotiate for autonomy in Moslem areas of the south.

In December, an elderly Jewish man returning from prayers at the Western Wall was stabbed. His assailants have not been caught.

After this week's events, Polish officials foresee a series of new contacts with Western countries and say they are optimistic about a restoration of normal relations with the United States.

The government spokesman, Jerzy Urban, said last week that General Jaruzelski would probably make two or three other visits to the West this year, while the foreign ministers of France, West Germany and some other Western European countries are expected to visit Warsaw.

Tighter Security Ordered

Prime Minister Yitzhak Shamir said Sunday that Israeli police had been ordered to improve security in Jerusalem after the stabbing of the two Ochiayon brothers, Reuters reported from Jerusalem.

"Police have orders to strengthen security, to increase their guard and alertness, and we will use all means to ensure such incidents do not recur," Mr. Shamir said after visiting Avi Ochiayon in the hospital.

Teddy Kollek, the mayor of Jerusalem, appealed to follow Jews not to attack Arabs or their property.

WORLD BRIEFS

U.S. Lifts Ban on Drill Sales to Soviet

WASHINGTON (AP) — The Reagan administration, responding to pressure from the domestic oil and gas industry, has lifted controls on the export of drilling equipment to the Soviet Union that were imposed in 1978 to force a change in Soviet human rights policy.

Officials emphasized that the Soviet Union has shown no improvement on human rights. Instead, Commerce Secretary Malcolm Baldrige said Thursday that the controls were being lifted because they "have lost their impact in the face of widespread foreign availability of like products" and have had a "debilitating effect" on the American oil and gas industry.

Mr. Baldrige said the decision to lift the controls was made in conjunction with Secretary of State George P. Shultz, and "despite our dissatisfaction with Soviet human rights efforts."

Talks Collapse on EC's 1987 Budget

BRUSSELS (Reuters) — European Community budget ministers failed to agree on spending levels for 1987.

The collapse of the talks leaves the 12-nation group operating on an emergency financing system that is insufficient to cover its needs and opens the possibility of a damaging conflict with the European Parliament, diplomats said Saturday. In December, the Parliament proposed a budget totaling \$40 billion.

The ministers were unable to bridge differences between member industrial countries and the Mediterranean countries over demands from the Parliament for more nonagricultural expenditure.

Seoul Reports Dissident Was Tortured

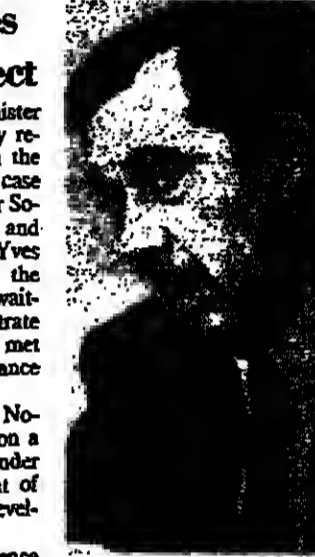
SEOUL (Reuters) — A South Korean student dissident who had been in detention for anti-government activities was tortured by the police, state radio reported Sunday.

The report said that two police investigators had admitted beating Park Jong Chol, 21, during an interrogation. A police spokesman said that an official announcement on the death was expected Monday. The results of an autopsy on Mr. Park's death Wednesday became available. The officers face life imprisonment if they are found guilty of torturing the student, state prosecutors said.

The New Korea Democratic Party, the main opposition group, demanded Saturday that the parliament hold a special session to discuss the death. The party said the case was only the "tip of the iceberg" of human rights violations by the government of President Chun Doo Hwan.

French Aide Denies He Met With Suspect

PARIS (IHT) — Interior Minister Charles Pasqua denied on Sunday reports that he may have met with the principal suspect in a corruption case involving figures in France's former Socialist government. French radio and television stations reported that Yves Chaler, who is a former aide to the cooperation minister and is in jail awaiting trial, told the examining magistrate in the case Saturday that he had met with Mr. Pasqua before fleeing France for Latin America in April.



Charles Pasqua

Soviet Activist's Wife On Way to U.S.

MOSCOW (UPI) — Iana K. Meiman left Moscow on Sunday to undergo cancer treatment in the United States.

Mrs. Meiman, 54, was to spend a night in Vietnam before flying Monday to Washington, where she will begin treatment at Georgetown University Hospital. She has undergone four operations for a tumor on the back of her neck, but Soviet physicians have been unable to halt its growth.

Her husband, Naum, 75, a mathematician and founding member of a group to monitor Soviet compliance with the 1975 Helsinki accord on human rights, silently begged his wife, refusing to talk about his own efforts to leave the country. He has been refused permission to immigrate for almost 12 years.

Kemp Said to Set Date for Candidacy

BUFFALO, N.Y. (UPI) — Representative Jack F. Kemp of New York plans to announce his candidacy for the 1988 Republican presidential nomination April 6, it was reported Sunday.

Mr. Kemp will give up the chairmanship of the House Republican Caucus to devote more time to his candidacy. The Buffalo News reported. He has held the post since 1981. Mr. Kemp announced Friday he would give up his post as ranking Republican on a House appropriations subcommittee.

The newspaper reported that Mr. Kemp will hold news conferences April 6 in Washington and Buffalo and in the key primary states of Iowa and New Hampshire.

Mr. Kemp, a 51-year-old former professional football player, has been a member of Congress since 1970. Last month, he announced the creation of a committee headed by Charles Black, a veteran Republican strategist, to explore a presidential bid.

For the Record

Israel should maintain its economic and military ties with South Africa despite U.S. pressure for it to accept sanctions, panel of experts has recommended. Israeli news reports said Sunday. (AP)

The United States is reported close to establishing diplomatic relations with Mongolia, a Soviet ally on the Soviet-Chinese border. "We are having discussions with Mongolia about normalizing relations," Chairman E. Redman, the State Department spokesman, said Friday. (AP)

Sudan has turned down requests from both the Chadian government and the Libyan-backed rebels for military facilities, Prime Minister Saaded el-Mahdi of Sudan said Sunday. (AP)

Six Tamil militants and eight soldiers were killed Saturday when two Sri Lankan Army helicopters attacked a rebel post near the northern city of Jaffna, a spokesman for the rebels said Sunday. (AP)

Alli Ahmedi of the Iranian Foreign Ministry arrived in Paris on Sunday for talks with the French government that are expected to focus on ways of improving ties. France has expressed concern over progress toward the release of French hostages in Lebanon. (Reuters)

Warsaw Takes Big Step Out of Diplomatic Isolation

By Jackson Diehl
Washington Post Service

WARSAW — The government of General Wojciech Jaruzelski appears to have achieved a breakthrough in ending Poland's long-standing diplomatic isolation.

Prime Minister Yashiro Nakasone of Japan, on a four-nation trip through Eastern Europe, met with General Jaruzelski and Prime Minister Zdzislaw Messner on Friday for talks that both sides termed successful. Officials said discussions focused on Warsaw's desire for expanded economic cooperation with Japan, but no concrete agreements were discussed.

The visit, the first by a Japanese prime minister to postwar Poland, came in a week in which General Jaruzelski carried out a two-day trip to Italy in his first official visit to a Western country since the suppression of the Solidarity independence trade union five years ago.

While in Rome, the general also met with Pope John Paul II at the Vatican, an event the pope termed "undoubtedly historic."

Polish officials and the state-run media have described the diplomatic activity as a major success that has marked a turning point in the country's international relations.

"The proclaimed Polish-Japanese top-level political dialogue," said the daily Zycie Warszawy, "additionally confirms a fact most important to us: We are witnessing an evident restoration and consolidation of Poland's international position, shaken by the crisis of 1980-81."

Ending the longstanding freeze on diplomatic contacts and economic assistance to Poland by Western countries has been a priority of the Jaruzelski government as it seeks to manage a \$30-billion foreign debt to the West and revitalize a sluggish economy.

Above all, Warsaw is seeking an end to remaining U.S. economic sanctions, which include a ban on official U.S. credits and withdrawal of Poland's most-favored-nation trade status. Poland contends the sanctions have cost the country billions of dollars in lost trade.

In December 1985 General Jaruzelski arranged a makeshift visit to Paris for a meeting with President Francois Mitterrand, and last year several West European countries renewed leading to Poland on a modest scale. But Poland was not able to obtain major Western credits and investments or an end to U.S. sanctions.

The basis of the new upturn in Western relations was set last September when General Jaruzelski released virtually all of Poland's political prisoners, including several top leaders of Solidarity. The amnesty had been a tacit condition of Italian and Vatican agreements to the general's visit last week as well as for the lifting of U.S. sanctions, Western diplomats said.

After this week's events, Polish officials foresee a series of new contacts with Western countries and say they are optimistic about a restoration of normal relations with the United States.

The government spokesman, Jerzy Urban, said last week that General Jaruzelski would probably make two or three other visits to the West this year, while the foreign ministers of France, West Germany and some other Western European countries are expected to visit Warsaw.

Diplomats here said that a complete lifting of the U.S. sanctions could come within several months if planned contacts proceed successfully.

Farewell to Arms for Uganda Youth

KAMPALA, Uganda — Monday is back-to-school day for hundreds of Ugandan child soldiers who interrupted their formal education to take up arms and fight in President Yoweri Museveni's National Resistance Army.

The children, known locally by the colloquial Swahili word *bakadogo*, or little ones, have received their demobilization orders from army headquarters after up to five years of guerrilla war against the government of former President Milton Obote.

An army spokesman in Kampala said the youngsters, some of them under 10 years old, should put aside their guns, take off their army uniforms and report to one of two special military academies to resume formal schooling.

Any found roaming around armed or in uniform without a pass from his or her school would be liable to arrest and disciplinary action, he added.

The order ends a lengthy debate in Uganda on the future of the child soldiers, and widespread public criticism of Mr. Museveni's government for allowing them to carry out law and order duties almost a year after the army came to power.

Mr. Museveni has tried to answer critics by saying his guerrilla force did not set out to recruit the children.

"Many children were abandoned and left helpless when their parents or guardians were massacred by Obote's murderous soldiers," he said last year.

Soldiers who fought in the National Resistance Army campaign said the children played an important part in intelligence gathering by posing as innocent children, and in some cases they fought successfully against indoctrinated troops who underestimated their ability.

The two military academies are in the barracks at Mbarara, 150 miles (240 kilometers) southwest of Kampala, and Bombo, 20 miles north of the capital, with each school teaching a distinct syllabus.



A soon-to-be decommissioned child soldier.

Shultz's Goals in Africa Building Markets, Cutting Soviet Influence Were Among Priorities

By David K. Shieler
New York Times Service

WASHINGTON — Giving foreign aid is the process of doing good for somebody else in pursuit of your own self-interest. That seemed to be the governing proposition of Secretary of State George P. Shultz's trip to six countries in Africa that ended last week.

As he arrived at one airport or presidential palace after another, Mr. Shultz stressed Washington's desire for "partnership" in helping the Africans help themselves.

Pure altruism was rarely mentioned to be and his aides offered a list of motives for providing American money to countries whose people suffer from poverty, illness and malnutrition.

The Reagan administration is interested in minimizing Soviet influence, maximizing markets for American exports, securing the sources of raw materials for American industry, and seeing developing countries remake their economies in the American image.

Economic and strategic concerns drove the European colonial powers into Africa in the earlier era. Now, 20 to 30 years after the colonized nations must try to woo Africans with aid and encourage steps to make Western investment safe.

That was Mr. Shultz's mission as he traveled to Senegal, Cameroon, Kenya, Nigeria, the Ivory Coast and Liberia. It was the first time that a secretary of state in the Reagan administration had visited sub-Saharan Africa.

As he flew there, he reflected on what priority he would give the strategic, economic, ideological and altruistic factors in determining American aid to Africa.

"There's nothing wrong with wanting to help people and see them do better," Mr. Shieler said. "So in saying that I believe the things we're seeing are in the American interest and that's our primary motive, I don't want to be knocking generosity."

"But I think it's important to be more hardheaded than that. So I think that it is in our interest to see countries become market-oriented in their economic system. It relates itself to openness and democracy, a form of government that we think is not only good for the people involved but basically good for us.

TERROR: 2 Jailed Shiites Part of Plot, Officials Fear

(Continued from Page 1)

established support networks that have yet to be uncovered.

"These kinds of people do not operate alone," the judge said. "They have to have somewhere to hide the explosives and somewhere to plan their operations."

Mr. Khorib and Mr. Hamzadi appear to have lived in Europe for several years. That information supports the suspicion among many investigators that a Lebanese Shiite terrorist network is already functioning in Europe.

One difficulty in evaluating the significance of the two arrests de-

rites from the complex and not clearly understood structure of Lebanese Shiite groups.

The key question, according to U.S. and Italian investigators, involves the relationship between two of the most important groups:

18 Missing Off Spanish Coast

BARCELONA — A Maltese-registered cargo ship sank Saturday in the Mediterranean off the coast of northeastern Spain, and 18 of its 20 crewmen were missing, a coast guard official said. He said the 4,500-ton Kyrethia Star sent out a distress call before sinking, apparently after its cargo of iron bars shifted in heavy seas.

Trial to Open in Italy Blast

BOLOGNA — The trial of 20 people charged in connection with the bombing of the Bologna train station bombing in 1980 was scheduled to open Monday.

The explosion, on August 2, 1980, in a waiting room crowded with travelers, killed 85 persons and wounded 200.

Investigating magistrates believe the attack was carried out by neo-Fascists with links to Italy's secret services in an attempt to destabilize the country and pave the way for a rightist military government.

Eight defendants are charged

Media Group Acts to Fight Censorship

LONDON — Publishers and editors from 39 countries agreed Sunday to create a fund to challenge censorship in court.

The agreement was reached at the end of a two-day meeting that explored ways of combating press censorship around the world and of helping those in prison or in trouble because of their reporting.

The conference was sponsored by the World Press Freedom Committee, a group of 32 news organizations.

Participants backed a declaration condemning the use of force by governments and criminal forces that seek to intimidate the news media.

The document, called the Declaration of London, said borders should be open to foreign journalists to travel freely in each country and have access to official and unofficial news sources.

The resolution urged creation of a fund "to support legal challenges to censorship measures and to other abuses of press freedom."

The declaration supported sending fact-finding missions to countries with strict press regulations and said the first such mission would try to visit South Africa.

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RICK!

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Since November, Reagan Has Faced No Iran Questions

By David Hoffman and Lou Cannon
Washington Post Service

WASHINGTON — President Ronald Reagan has not been questioned since November by his staff or others about his recollections of the decision to sell arms to Iran, a White House spokesman said.

"So far as I know, there has been no effort yet to do that," the spokesman, Albert R. Brashear, said Friday. He said Mr. Reagan would not be questioned until aides have put together their report on what happened in the clandestine shipment of weapons to Iran.

The president should not be asked to comment, certainly, until such time as the aides have been able to "sort it all out," Mr. Brashear said. "I don't think it is fair that he be asked to do that."

Mr. Brashear said the White House counsel, Peter Wallison, and the president's special counsel on the Iran-contra affair, David M. Abshire, were assembling information to "indicate what exactly transpired."

"Until such time," he said, "it's my understanding there is no intent to go to the president with each thing that they uncover, each thing that they review, but rather to wait until the process is complete."

He said the process included investigation by Congress, the independent counsel, Lawrence E. Walsh, and the president's commission on the National Security Council, headed by John G. Tower.

Later Mr. Friday, Mr. Abshire issued a statement saying Mr. Reagan "is continuing to follow closely" the efforts to compile facts about the controversy. He said that Mr. Reagan met with him this week and will continue to meet with him, and that Mr. Reagan "remains committed to his pledge to the American people that they get all the facts."

A White House statement issued after the meeting said the two men discussed three objectives: accelerating release of information to the separate investigations; establishing "positive" relations with Congress; and maintaining a "bipartisan focus" during the inquiries.

It made no mention of any discussion about Mr. Reagan's recollections of the Iran decisions.

The president has not met with reporters since the Nov. 25 announcement that money from arms sales to Iran was diverted to the Nicaraguan rebels. Mr. Reagan has said he did not know about the diversion until informed of the results of an investigation by Attorney General Edwin Meese 3d. Mr. Meese apparently was the last official to question the president about the affair.

The White House chief of staff, Donald T. Regan, who participated in the Iran arms sales decisions but also said he did not know of the diversion, has also been unavailable for comment on any subject since then.

Many questions have come to light since Nov. 25 about Reagan's role.

One concerns the policy objectives of the arms sales to Iran. Last week, the White House made public a Jan. 17, 1986, memorandum prepared for Mr. Reagan that called the sales "the only way to free" U.S. hostages in Lebanon.

Mr. Reagan was given an oral briefing on the document, according to a notation by Admiral John M. Poindexter, his national security adviser at the time.

Another key question is whether the president approved in advance the shipment of weapons to Iran through Israel in 1985. For Israel to send the weapons without presidential approval would be against U.S. law. Top advisers have given conflicting accounts on the question.

White House aides have refused to make public additional documents to shed light on these and other questions.

Mr. Brashear was whether the president was "involved" in the investigation and replied: "He is not sitting down devoting all his time to reviewing what is behind him. The president is looking forward, as he must in his job of carrying out the last two years of his term in office."

A White House official said Friday that Mr. Reagan's State of the Union Address on Jan. 27 would be oriented toward the future.

AMERICAN TOPICS

Blacks Providing Democrats' Margins

In all nine presidential elections since Harry S. Truman won in 1948, the Democratic nominee has won a majority of the white vote only once, when Lyndon B. Johnson overwhelmed Barry Goldwater in 1964. These nine contests produced only two other Democratic victories: John F. Kennedy's in 1960 and Jimmy Carter's in 1976.

In the 1986 Senate elections, in which the Democrats came back from four years in the minority to win a five-seat majority, black voters provided the clear margin of difference for the party's nominees in Alabama, Georgia, Louisiana and North Carolina, The New York Times reports.

The figures come from the Joint Center for Political Studies, a research group in Washington that is studying black political influence. The center concluded in a newsletter that for the Democratic Party to win the presidency in 1988, it "must be capable of putting together a coalition that includes at least a substantial proportion of whites," about 40 to 45 percent, and of "maintaining its nearly unanimous black support."



TAKING THE RAP — Shannon Burns, 10, with her account passbook in San Jose, California, after the Internal Revenue Service placed a lien on her savings of \$694 to collect back taxes owed by her father. The IRS relented after she complained to a newspaper.

Notes About People

Governor Michael S. Dukakis of Massachusetts, a potential Democratic nominee for president, likes to remind audiences that Boston, the state capital, has traditionally been known as the Athens of America. He then pauses and smiles slowly as the double meaning sinks in: the governor himself is of Greek ancestry.

Vic Damone, 58, the crooner, and Diana Carroll, 51, an actress currently

starting in television's "Dynasty," were married in Atlantic City, New Jersey, each for the fourth time.

Short Takes

Gunfire killed nearly two-thirds of the 97 law enforcement officers who died in the line of duty in 1986, according to the National Association of Chiefs of Police. Sixty-one officers died of gunshot wounds, 21 in traffic accidents and 11 in plane crashes. Two died in a bomb explosion, one drowned in a rescue attempt and one died of a heart attack while chasing a felon. The figures changed very little from 1985, when 100 officers were killed, including 64 of gunshot wounds and 26 in traffic accidents.

Attending college may well improve a woman's marriage prospects, a U.S. Census Bureau study indicates, disputing a report that suggests women who postpone marriage to pursue an education are less likely to marry. Jeanne E. Moorman said her figures show that a woman of 20 stands an 88.9 percent chance of marrying by age 65. However, if her education stopped at elementary school, the likelihood is 79 percent, dipping to 74.2 percent with some high school. Her chances rise to 86.6 percent with a high school diploma and to 93.5 percent with some college, peaking at 96.2 percent if she gets her degree. However, if she goes on to graduate school, the chances slip slightly, to 89.7 percent.

Shorter Takes: Of the 52 Americans held hostage for 444 days in Iran, 51 have received special bonuses voted by Congress of \$50 for each day of captivity, or \$22,200 each. The 52d hostage was not a government employee and was not eligible. • Public school pupils in Hattiesburg, Mississippi, who get straight A's receive a laminated "Gold Card" entitling them to discounts on hamburgers, pizza, videocassette rentals, sporting goods and clothes at local stores. • Applications are up 10 percent at the U.S. Naval Academy at Annapolis, Maryland. A spokesman attributes this, at least in part, to the hit film "Top Gun" and the best-selling novel "The Hunt for Red October," both about the navy.

A Practical Guide To Marital Brevity

A handbill placed under the windshield wiper of Amy J. Haimm's car in Lawrence, Long Island, and reported to The New York Times: GOING OUT OF MARRIAGE SALE! WE'RE SPLITTING UP AND WHAT WE CAN'T SPLIT UP WE'RE SELLING! EVERYTHING LIKE NEW (IT ONLY LASTED THREE MONTHS) —ARTHUR HIGBEE

Klan Backers Block 'Brotherhood' March in All-White County

Goal of Walk Was to Welcome Georgia Blacks

By Dudley Clendinen
New York Times Service

CUMMING, Georgia — When Charles A. Blackburn moved to this lily, rustic area in north Georgia five years ago from the San Francisco Bay area, he thought it was a perfect balance: a cabin on a lake in woody country just 30 miles north of metropolitan Atlanta.

Mr. Blackburn is a white man, and he did not notice at first, so close to that city of racial harmony, that there were no black people here in Forsyth County.

He did not know the reason. But when he tried to persuade a black women's club in Atlanta to take some of the human development courses he teaches, along with karate and meditation classes, the club president pulled her group and none of them would set foot in Forsyth County.

Now would black friends from Atlanta drive up to have dinner with him, he said.

Not since the black population was driven from the county in 1912, he discovered, has anyone of that color felt welcome here.

Because that bothered him, Mr. Blackburn decided to organize "a walk for brotherhood" on Saturday morning. He just wanted to demonstrate, he said, "that it would be O.K. for black people to come visit in Forsyth County."

"That is when the threats began, and they proved to be harbingers of the walk's disruption Saturday by hundreds of robed Ku Klux Klan members.

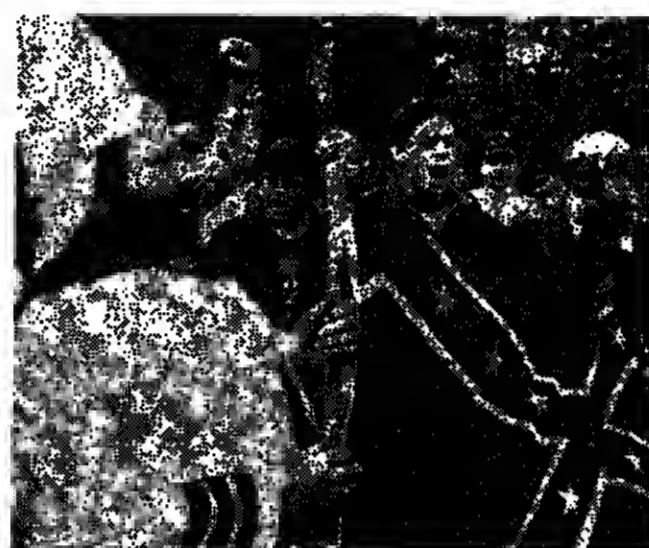
The county's leadership has stepped forward to denounce the threats, which Mr. Blackburn had recorded on tape.

"Anti-Christ!" one voice hissed. Another male voice, low and menacing, said, "I got a 30.06 bullet with your name on it."

But it was the women who were the most volatile. "I just don't think it's a good idea for you to try to get the niggers to come up here," said one. "That's why we live in Forsyth County: to get away from them."

Another woman, her voice crinkly with age, said: "You know what I think? I think you better move out of this county. I know one person whose house was burned, so you'd better watch out."

Three-quarters of a century ago, it was the blacks who moved out. In September 1912, after a rape so brutal that its victim, a young white woman, died of her injuries, one of three young black men she had named as her attackers was left



A Ku Klux Klan member with a Confederate flag and others shouting racial epithets during the march.

mutilated and dead, hanging from a telephone pole. Within six weeks, the two others had been tried and hanged before a crowd of 10,000 whites.

By then, after mass dismissals by employers and a series of house and church burnings, every black person in Forsyth and Dawson Counties, hundreds in all, had been driven out.

The counties of north Georgia, like those of northern Alabama or other states of the same latitude, lack the flat lands and richer soil of the old cotton and plantation belt to the south.

Historically they have had tiny black populations. Several counties in north Georgia have no blacks, and residents show none of the friendly biracial feelings that developed where both races lived together.

But it is the history of the rape and the forced exodus 75 years ago that make the whiteness of Forsyth County such a sharp object lesson. And the shooting of a black Atlanta firefighter at a picnic in a lakeside park there just six years ago served as a reminder of the county's bitter history.

"Somebody's got to keep the niggers out," Melvin Crow, one of the suspects, told investigators. That statement was reported in an article on Forsyth County last fall in Creative Loafing, an Atlanta newspaper.

The county, one of four that form the northern collar of Atlanta, has grown from 6,000 residents in 1960 to almost 40,000 today, said Sheriff Wesley C. Walraven Jr.

The threats that Mr. Blackburn received have made people elsewhere wonder whether the old hostility had diminished. No blacks have moved into the county, and

Whites Hurl Rocks and Bottles; 8 Arrested

New York Times Service

CUMMING, Georgia — A large crowd of Ku Klux Klan members and supporters throwing rocks, bottles and mud blocked a "brotherhood anti-intimidation march" through a county that for decades had no black residents.

Several of the estimated 75 black and white marchers were struck by the objects, but no serious injuries were reported. Eight persons from the group that jeered and threw objects were arrested.

The Forsyth County march was planned to mark the Jan. 15 birthday of the Reverend Martin Luther King Jr., the civil rights leader slain in 1968. It was led by Hosea Williams, an Atlanta city councilman and former aide to King.

An estimated 800 to 1,000 whites, including about 100 members of the Ku Klux Klan, gathered in opposition to the march. They listened to a speech by J.B. Stoner, a white supremacist who was released from a federal prison in November after serving three and a half years of a 10-year sentence for participating in the 1958 bombing of a black church in Birmingham, Alabama.

NSC Commission Finds Little New Evidence

By Susan F. Rasky
New York Times Service

WASHINGTON — Less than two weeks before its report is due, the White House panel examining the National Security Council's role in the Iran-contra affair has uncovered almost no new information.

President Ronald Reagan named the three-member review panel, headed by former Senator John G. Tower of Texas, in November after saying he had not been fully informed that as much as \$30 million from American arms sales to Iran may have been diverted to the Nicaraguan rebels.

In addition to Mr. Tower, the other members are former Secretary of State Edmund S. Muskie, and Brent Scowcroft, a former national security adviser.

According to administration sources familiar with the panel's work, the report is being prepared without access to the individuals and financial records the panel sees as crucial.

According to the Justice Department, the earliest such records might become available would be mid-February, assuming the Swiss government agrees to waive its strict privacy rules and grant the administration's request for access to the accounts.

Lacking subpoena power, the panel has been unable to compel appearances by several central figures in the affair.

These include Vice Admiral John M. Poindexter, a former national security adviser; Colonel Oliver L. North, a former NSC staff member; Richard V. Secord, a retired air force major general; Albert Hakim, who was General Secord's business partner; and several Israeli officials.

William J. Casey, the director of the Central Intelligence Agency, remains too ill to speak with the panel after removal of a cancerous tumor from his brain last month.

At the same time, any suggestions the panel makes on how the National Security Council should be organized and used in the future have already been overtaken to some degree because Frank C. Carroccio, the new national security adviser, began a major internal review and reorganization this month.

He said a week ago, for example, that the National Security Council would no longer involve itself in covert operations.

Despite the difficulties, the commission sees its contribution as valuable, the sources said. It is continuing to pursue leads and hopes to produce a chronology of the Iran affair that could provide some insights on why particular events unfolded as they did.

Even if the review board's Jan. 29 report deadline is extended for a brief period, as now seems likely, prospects that it could turn up major revelations are unlikely, the sources said.

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Hussein Enan welcomes ADVISTA ARABIA '87 delegates

With the international recession and its effects on the Arab World the first budget cuts are - rightly or wrongly - those related to advertising and public relations. The media, especially the press, has been adversely affected by this phenomenon. It is for this reason that ADVISTA ARABIA '87 comes at a most opportune time. This conference will be a landmark in the history of advertising and marketing in the Arab World. The theme: "Knowledge is power: Effective Advertising and Marketing in the Arab World"

is dedicated to helping international advertisers to better understand our intricate, if lucrative, markets as well as to promote inter-Arab cooperation and understanding in the fields of advertising and marketing. It is indeed an honour and a great privilege that the conference - the first of its kind to be held on such a grand scale - will be hosted by Egypt. I take this opportunity to welcome all ADVISTA ARABIA '87 delegates.



"ADVISTA ARABIA '87 will be a landmark in the history of advertising and marketing in the Arab World."

Hussein M. Enan
- Hussein Enan
President, Board of Trustees,
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Registration form for ADVISTA ARABIA '87, including fields for name, address, telephone, and payment information. Includes a logo for ADVISTA ARABIA '87 and a note about delegate fees.

Europe's Cold Snap Eases But Death Toll Keeps Rising

LONDON — Europe's record cold wave loosened its grip in several regions Sunday, but freezing temperatures took more lives and many communities remained cut off.

FRANCE: Mood of Charity

(Continued from Page 1) ...hishments, which are now in their second season of operation.

Ecevit Sentenced For Violating Ban

IZMIR, Turkey — Bulent Ecevit, the former Turkish prime minister, was sentenced here Saturday to 11 months and 20 days in prison on charges of violating a law that bans him from political activity until 1992, legal sources said.

Guttuso, Painter And Italian Foe Of Fascism, Dies

ROME — Renato Guttuso, 75, the Italian painter, died Saturday after a long illness.

Big Protest in San Salvador

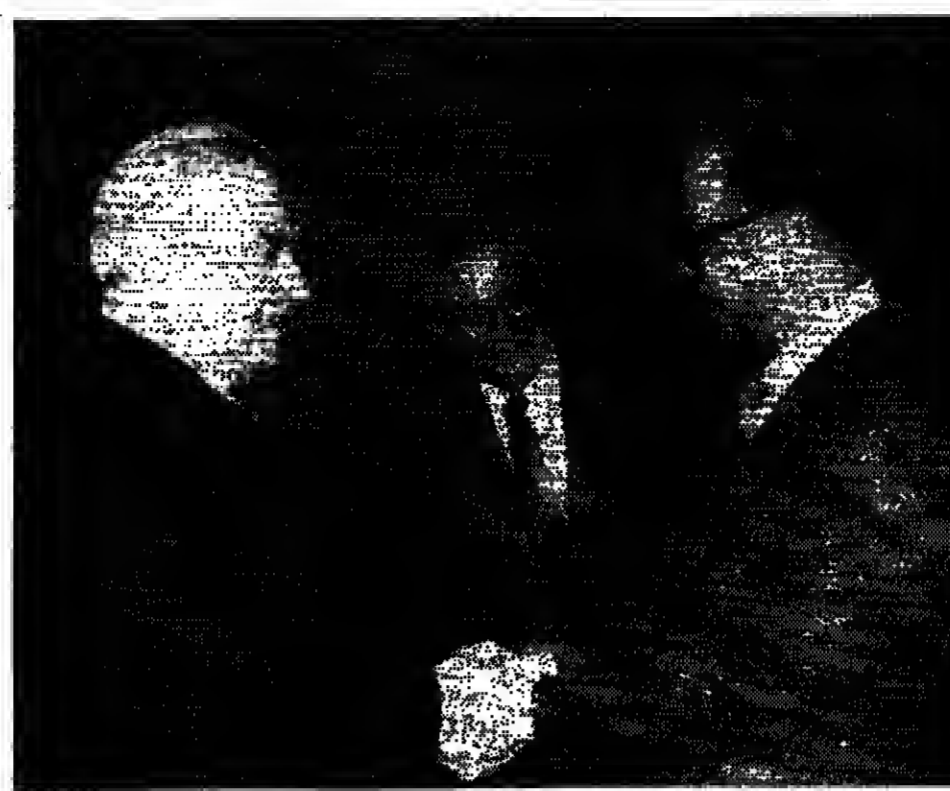
SAN SALVADOR — About 10,000 people rallied in San Salvador on Saturday to protest government economic measures and the civil war.

Mexico's Leftist Parties Try to Form a Unified Opposition

By William Stockton ...an indication that the new group would not be bound to Moscow or Beijing.

ARMS: \$5.6 Million in Illegal Contra Arms Shipments Apparently Made Through Lisbon

(Continued from Page 1) ...cio Cerezo and the defense minister, General Jaime Hernandez Mendez, said Guatemala had neither ordered nor received weapons from Portugal and had not served as a cover destination or transshipment point for arms supplies.



Zhao Ziyang, right, the new acting general secretary of the Chinese Communist Party, greeting Ferenc Havasi, the leader of a Hungarian party delegation, in Beijing on Sunday.

CHINA: No Changes, Zhao Says

(Continued from Page 1) ...disagreements and were uncertain what to say next.

Sandinists, Communist Party: A Split on Ideology

By Stephen Kinzer ...The Sandinist government says its ideology is a form of Marxism adapted to Nicaragua, but Communist Party leaders reject that assertion.

FREED: Ecuador's Leader

(Continued from Page 1) ...president of this country," he recalled, "but they kept on pushing me."

BBC Confirms It Canceled Show

(The Associated Press) ...LONDON — The British Broadcasting Corp. confirmed Sunday that it had canceled a television program that reported on the capture of a \$500 million (\$750 million) defense project was being kept secret from Parliament.

WAR: Iran Presses Raid on Basra

(Continued from Page 1) ...Abu al-Khasib, about 10 miles (16 kilometers) down the Shatt al-Arab waterway from Basra. The refinery is presumably unused, since Iraqi oil production in the southern region has been stopped because of the war.

Indian Police Enter Sikh Temple Complex

By Steven R. Weisman ...NEW DELHI — Paramilitary police forces on Sunday entered the complex of the Golden Temple at Amritsar, the Sikh religion's holiest shrine, and arrested several persons suspected of involvement in terrorist activities, according to news reports here.

AFGHAN: Rebels Reject Bid

(Continued from Page 1) ...Some guerrilla groups had turned down the cease-fire offer earlier this month. Saturday's rejection by all the groups came after weeklong meetings here.

India Police Enter Sikh Temple Complex

They charged that 200 innocent pilgrims and temple employees had been seized in the raid and that furniture and records were ransacked.

AFGHAN: Rebels Reject Bid

Press reported from Islamabad. The rebels also said guerrillas were stepping up attacks against government positions.

India Police Enter Sikh Temple Complex

The raid Sunday morning followed reports in recent weeks that some Sikh extremists had once again begun using the temple as a sanctuary from which to carry out killings.

AFGHAN: Rebels Reject Bid

Western relief workers based here and other Western and Afghan observers, described the rally as an impressive display of unity by the resistance movement, which is split by competing personalities, traditional loyalties and differing interpretations of Islam.

India Police Enter Sikh Temple Complex

Such reports had led to the raid last May and also to the much bloodier army raid in June 1984, ordered by Prime Minister Indira Gandhi, in which hundreds of people were killed. Mrs. Gandhi was murdered the following October by two Sikh security guards in retaliation.

AFGHAN: Rebels Reject Bid

Officials in Pakistan's Commission for Afghan Refugees said only a few of the estimated two million to three million refugees in Pakistan had crossed the border back into Afghanistan in response to the Afghan government's appeal for refugees to return home.

India Police Enter Sikh Temple Complex

Both General Modesto Salazar Navas, the minister of defense, and Colonel Patricio Gonzalez, the base commander, were among those taken captive, as were the commanders of Ecuador's navy and air force.

BBC Confirms It Canceled Show

Mr. Kovaliev's trip was announced Friday, 24 hours after a Pakistani Foreign Ministry spokesman had said no date had been fixed for his visit.

WAR: Iran Presses Raid on Basra

Four days later, the officers resigned. But General Vargas continued his rebellion, insisting that his demands had also included a criminal investigation that was not being conducted.

India Police Enter Sikh Temple Complex

Mr. Febres Cordero, 55, sent troops to put down the rebellion. More than a dozen people were reported killed and General Vargas was placed under arrest at a military barracks, where he remained until Friday.

WAR: Iran Presses Raid on Basra

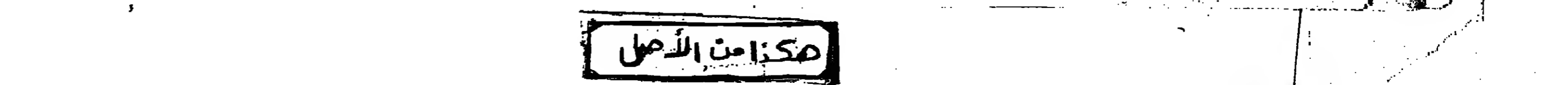
Iran said its forces had captured the islands of Umm al Tawal and Fayyaz during "harsh fighting" overnight. Saturday, Iran claimed to have secured the strategic Bovanian Island in the same area.

India Police Enter Sikh Temple Complex

Abu al-Khasib, about 10 miles (16 kilometers) down the Shatt al-Arab waterway from Basra. The refinery is presumably unused, since Iraqi oil production in the southern region has been stopped because of the war.

WAR: Iran Presses Raid on Basra

The dispatch said the Iranians had moved on from the island, "which played an important role in the defense of enemy strongholds around Basra," to capture "Dava'i township with its paved streets, a public park and cinema houses, which had been turned into a military township by the Iraqis."



BRITAIN

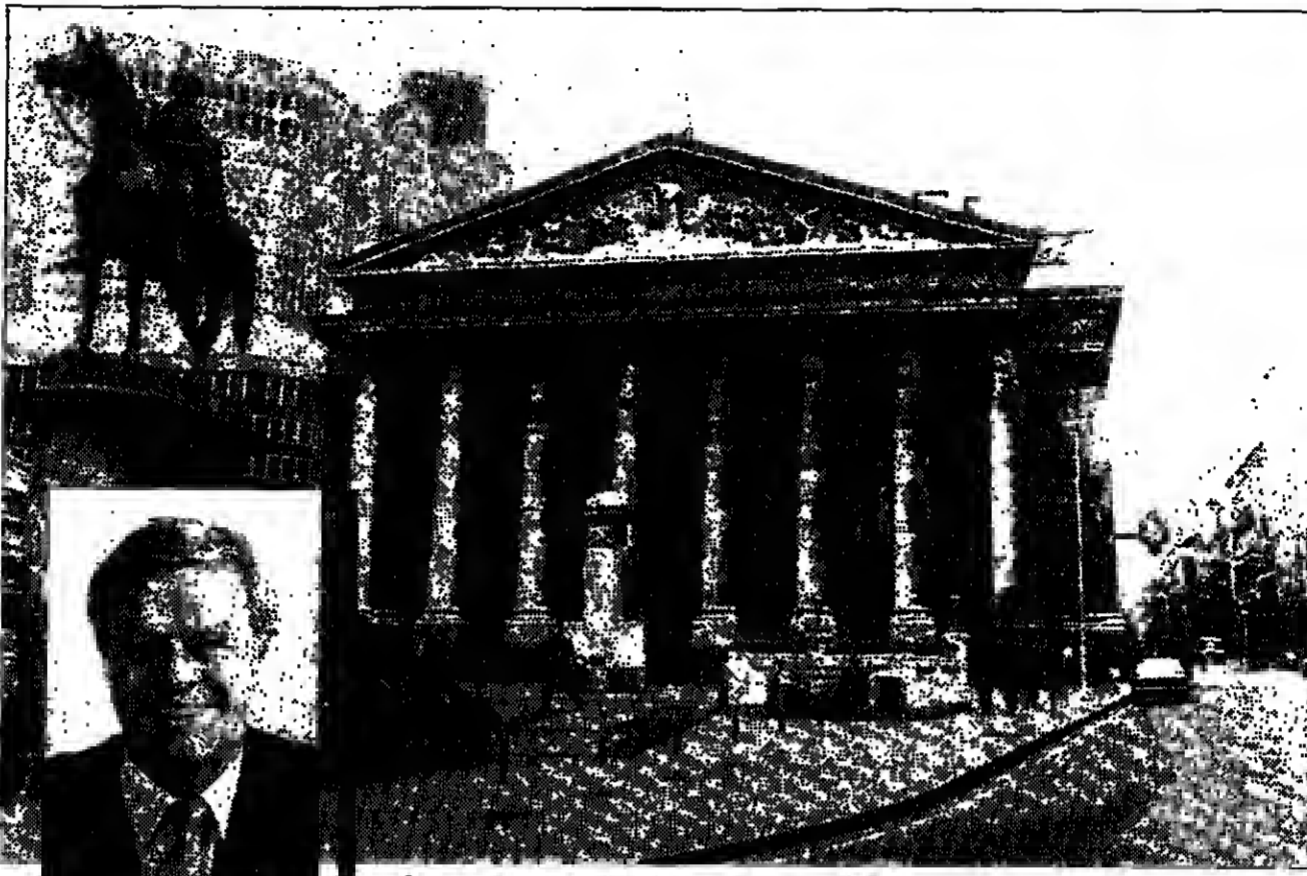
Britain's venture into privatization of government industries represents the country's most important economic and industrial change in the past four decades. Encompassing key industries — led by the transport, energy, communications and shipbuilding sectors of the economy — it can probably also claim to have generated the most international interest in Britain over the same period. In a way, it has served to pioneer similar privatization plans in Europe and other parts of the world.

The main voiced objectives of the government's privatization policy are that it will achieve greater business efficiency, stimulate wider share ownership, increase competitiveness and, by so doing, allow the powers of the free market to achieve more than they could under state control.

The government argument is largely based on the fact that most of the important industries of the country failed as state-run corporations, were prey to political and bureaucratic involvement, and that government needs, under such a system, often had to be overlooked. Borrowing was underwritten by the government, was indistinguishable in market terms from other forms of public sector borrowing and, as a result, the needs of individual state industries, on occasion, had to be subordinated to macroeconomic requirements. While claims for greater expenditure may have been justifiable in commercial terms, they nevertheless had to be viewed against the reality of public expenditure. The constraints stemmed from the paramount need to preserve public accountability through Parliament for the use of public money.

On a broader horizon, the sale of state-run corporations has generated a massive flow of cash for the government which, in the short term, will undoubtedly solve more than a few economic ills. What happens in the long term will depend on its reinvestment skills. Obviously, on an economic, political and ideological footing, the privatization process has gathered more than a few critics, although its industrial success appears recently to have considerably held back the flood of rhetoric.

Privatization, however, still remains the main point of contention for the opposition Labor Party and, while it should be argued that only history will be able to gauge the program's long-term economic advantages or shortcomings, its all-round implications for the future do remain a major topic for debate.



Left: John Butcher. Above: The LIFFE building.

The government's strongest card at this point is, undoubtedly, the record profit most of the companies have chalked up since privatization. John Butcher, the parliamentary Undersecretary of State for Industry, holds an impressive list and points out that this is just the beginning. "Privatization has revitalized some of our most important industries, has brought about the very changes that British industry has long needed — less state interference, more efficiency, better service to customers, increased incentives for management and employees," he said. "And the boost it has given to wider share ownership has helped create a more positive

attitude among the public at large to the future of British industry. It has created a new awareness at home and abroad."

The industrial success of the program, he says, can be measured in the sudden surge of profits from the newly privatized companies, many of which were floundering under state ownership and, very definitely, had lost their place in competitive world markets.

"The figures speak for themselves," he said. "The National Freight Consortium's pre-tax profits are up 70 percent for '85 and up six times since its 1982 privatization. Cable and Wireless has registered pre-tax profits up four-fold since its 1981 privatization. Amersham's pre-tax profit had doubled since it went to the private sector in 1982. Jaguar has come from near-bankruptcy and extinction to lead the country's automobile exports since its privatization in 1984. Its pre-tax profits were up 33 percent in 1985 compared to '84, with output at record levels and the provision of 1,500 new jobs. And British Aerospace has tripled its pre-tax profits since privatization in 1981."

Butcher believes that an important ingredient in the success of the privatization process has been the commitment of employees and the public to become involved in the country's own industry. "It has served to change the national culture," he said. "Individuals now no longer see share ownership as something for the rich. It is something they can all become involved in. And when it means owning a part of their own company, then obviously it

brings a change of attitude. It is removing the old distinctions between owners and workers. I believe it has made management and workers together more dedicated to the task of succeeding. And I believe that together they have already shown that this process works."

Employee interest in owning shares in their own companies has, feels Butcher, already served as a statement of their own commitment to the future of British industry.

"Over 430,000 employees have acquired shares in the firms they work in," says Butcher. "That represents over 87 percent of employees in privatized companies. When the National Freight Consortium was sold, 11,000 employees and their families bought 83 percent of the equity. A further 7,000 employees have bought shares since. And when British Telecom came on the market, 96 percent of its employees applied for shares."

Thirteen major companies have been privatized up to now but the government has plans to transfer around another four to the private sector, depending on market conditions, before the end of this Parliament. Those already privatized are British Aerospace, Cable and Wireless, Amersham International, the National Freight Consortium, Britoil, Associated British Ports, International Aeradio, Enterprise Oil, Sealink, Jaguar, Inmos, British Telecom and British Gas. In the same privatization period, all six of Britain's warship yards were also sold, four of them in management buyouts, and six subsidiaries of the National Bus Company were sold, five in management buyouts. The four remaining state companies up for transfer are: British Airways, National Bus, British Airports Authority and Rolls Royce.

By the end of 1987, after the BA, BAA and Rolls Royce sales, almost half of what comprised the state commercial sector in 1979 will have been sold to the private sector.

While there have been worries that privatization preempts funds for the private sector, Butcher feels they are unfounded. "The timing of sales is carefully planned," he says, "and the capacity of the market has been extended by new investors attracted by the very success of privatization. Market capacity as a result is very considerable — over £8 billion was raised by U.K. companies on the Stock Exchange up to December 1986."

Overseas interest in the privatization program continues to grow and is, in fact, providing room for a new export — privatization know-how for many British institutions who have been involved in the British process. Two British banks are now involved in the first French privatization project of Saint-Gobain, the giant glass and building materials company. Several institutions have also been approached for other French privatization projects, and others in Europe and other parts of the world.

Where will it all lead? "In Britain, I'd like it to lead to much wider share ownership," said Butcher. "After all, 60 percent of our people now own their own homes and that's one of the highest ratios in the world. I think it would be magnificent if we could get 60 percent to own shares in industry and more people joining those who already have taken a real share in the nation's assets."

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Schroders

Keen Foresight Marks a Forerunner

In late 1983, when the British Government began planning for the privatization of British Telecom, European investors had little interest in buying U.K. shares. In fact, the track record was so insignificant that the financial houses were hardly about to be inspired by Britain's venture into privatization or the vague interest of European investors. And when the Chief Executive of the Swiss Bank Corporation International Ltd. in London came forward with an offer to handle a European share tranche, no one took him too seriously. The British Government obviously felt it worth a try but, rather cautiously, decided that Europe, in this case, would mean Switzerland only. The Europeans after all, had hardly fallen over themselves to play U.K. stock markets up to then and trying several European countries at the same time was not considered feasible.

The Swiss Bank Corporation had a different view. They felt that the privatization process in Britain would generate a new European interest and held immense potential. Such foresight paid off. The bank which had been a lone runner at the start, handled the Swiss share offers for British Telecom, Britoil and British Gas. It has also won the advisor's role for Banque Paribas. It is no longer a lone bidder for European offerings, having proven the market with the Telecom exercise, and has since had to join a long line-up of institutions in what is known in-house as "the beauty parade" to bid for the European tranche offerings. It has, however, turned its expertise to good use.

"The involvement has helped us enormously," explained Julian P. Summer, the bank's executive director. "We are one of the leading houses of the fast growing equities market and our involvement with the British government has helped build on our name. We've handled three successful European tranches and we have one more to handle. I don't doubt that the expertise we gained in Britain helped us to win the role of advisors to the French government for the floating of Banque Paribas and it is leading to further business in the private sector." By establishing such a track record of successes, the Swiss Bank Corporation now hopes to become involved in many other countries' privatization processes. Summer, in fact, envisions a massive boom in European trading as a result of Britain's privatization programs which, he said, are already spearheading similar plans in many other countries.

According to Summer, the French appear to have the most active privatization program lined up, led by the massive Saint Gobain Corporation and Banque Paribas. There are also signs of increased activity in Germany, Holland and Austria. But the one market that could develop in the future is Italy which, Summer pointed out, "has enormous Government holdings going into almost every imaginable area."

While overseas share offerings in British corporations have met with some opposition, Summer believed that the

Government's tightly controlled program, generally not allowing more than 15-20 percent to go to overseas investors, has, in fact, worked in favor of British business.

"There are many clear advantages to be gained from having overseas shareholders," he said. "It generates a lot of interest for the companies involved in world markets, and encourages greater investment. And one of the obvious advantages of having overseas tranches is to generate a better price."

He listed as an example, the Britoil experience. After a disastrous first issue, Britoil rather nervously reviewed the next offer. But noises of the softening of oil prices, and positive interest from Europe and Canada encouraged many to take another look.

"I think the only time overseas offering could be really unpopular," said Summer, "would be if the man on the street in Britain couldn't buy them. But that's not possible with the British Government regulations. They have what is called a "claw-back" stipulation which means that if retail investors apply over a certain number, then some of the shares can be taken back." This happened with the bank's initial allowance of 175 million British Gas shares worth £230 million. Under the claw-back clause, the bank was finally left with 102 million shares worth £137 million.

"It could be argued," said Summer, "that, as the deal got closer, British Gas could well have done without us. But, initially, the size of the £6 billion offering was unthinkable large. It ended up being twice over-subscribed but, a year previously, it had seemed a mammoth size."

An additional government benefit of having someone like the Swiss Bank Corporation, around, continued Summer, lies in using the bank's relatively low commission structure to lever lower prices from U.K. institutions involved. "The government use us to bash the institutions in Britain," said Summer. "If they are asking for a yield of ten percent, for example, then the government can argue that the European offering is only costing six percent."

How does Summer see European interest growing in British shares from now on? "Well," he said, "British Telecom really turned the tables. There was suddenly an enormous European interest in British shares. And Telecom served as a successful promotional tool. People who invested in Telecom doubled their money instantly. Since then, I think the privatization programs have served to continuously awaken peoples attention. And that has definitely meant an increase in European investing in Britain."

This supplement is the first in a series of Special Business Expansion advertising sections, written and created by Anna Francis and Dominique Sured.

Schroder: A Hands-On Approach

Getting involved in privatization means getting involved in the operations of the companies themselves. For a merchant bank like Schroder, that has meant a variety of experiences: from sending in teams of financial experts to learn the ins and outs of running ports and transportation networks, to studying the latest advances in modern communications.

Derek Netherton, the director of J. Henry Schroder Wagg Ltd. in London said, "It has been necessary for everyone working on privatization projects to fully understand the company and its all-around operations. When we became involved with the Association of British Ports, for example, we had to send in teams who, at first, had little idea of how a port actually worked. So, they had to stay and study the entire operation and ensure a thorough knowledge of each port facility. Schroder eventually must write the prospectus, and that becomes the selling document, so a comprehensive study has to be made."

Schroder was, in fact, one of the city's first financial institutions to become involved in Britain's privatization lineup. In the early days of Prime Minister Margaret Thatcher's government, they were called in to advise the National Freight Corporation on its preparations for privatization.

"It was a difficult time for the company," said Netherton. "They held less than a ten percent share of the fragmented market. Their main competitors were the small haulers. They had been forced to reduce their work force on the parcels side due to the changing ways of parcel transportation. And the British Rail contract they

had was not at all profitable for either side. Their strength, however, lay in the delivery side of their business. They had tried to differentiate themselves from other delivery transporters by ensuring return loads. So, if they were delivering something from point A to point B, they would aim to get a load from point B back to point A. And they had moved into the fashion business with companies like Marks and Spencer, and into cold storage with distribution to and from depots. They were diversifying into areas where service was important. When you studied the overall picture, they had a lot of opportunity."

Schroder's task was to examine the different ways in which NFC might go about privatization. The government was eager to see NFC given a chance within the private sector, and finally a mutual decision was reached with NFC for a management-led buyout and a consortium was formed.

"It was a politically attractive project for the government, which was quite avid about making progress in privatization," said Netherton. "It was an early runner in the wider share ownership program and the company was fortunate in that its employees regarded NFC as their own and were prepared to take the risk of investing in it. It was, and still is, an encouraging example of privatization."

Schroder, however, had to wade through many difficulties to set the stage for the final buyout. First, the company had a £50-million debt problem; therefore it could not use its land assets as collateral because, technically, the creditors would move in if something went

wrong. The rule was finally changed and the banks involved were able to acquire better security on these assets. Then there was a problem on the pension fund side. The fund represented two to three times the value of the company, although usually it should be only about half the worth. The government stepped in to fund the deficiency.

After the NFC experience, Schroder became involved in the far more complex attempt to privatize the Association of British Ports.

"It was the ugly duckling turning into a swan story," said Netherton. "Schroder was called in rather late in the day to advise the government. So we sent off teams to different ports to examine the situation. The work force was shrinking — it was the time of casual labor at the docks and strong management. The dock labor scheme stipulated that all docks were guaranteed work. And they were moving into containerization, which served to decrease the number of employees required."

"When we were called in, the government had decided to sell off only 51 percent of ABP, due to sensitivity within the workforce. We had to try and make the deal attractive to investors. So we had to fully comprehend every aspect of activity. Docks, to non-insiders, usually mean trouble — unions and strikes. We decided that the yield on the shares should be about 10 percent. It was capitalized at £45 million, so it was small. The record did not look very good, so ABP required an excellent description and the employees needed to be ameliorated with free and preferred shares."

On the day before flotation, the merchant bank involved with ABP signed documents for the government guaranteeing that it would take all unsold shares in the event that the public did not subscribe.

"Schroder, because it joined late in the day, had no time to do this," said Netherton. "But we obviously were concerned for its overall success. A press conference was called and the press could well have concentrated on all the negative points, like the unions and strikes and the low profits, or they could have gone the other way and talked about the potential of the property. But the press was very positive on the issue. And the ABP offering ended up being 33 times oversubscribed, so it worked out just fine."

The government still held 49 percent of the shares, so when the second tranche came up for offering, it was decided to try and offer shares by tender.

"There were worries that it would not work," says Netherton, "but they got a much better price of £2.75 per share. It was a nervous time, though, because the market had turned against us, so the £2.75-a-share achievement was rewarding. And the financial press acknowledged that we had obtained a better price, so it was considered a successful tender."

One of Schroder's most challenging involvements with modern technology in the British privatization lineup came with the second tender of Cable and Wireless, the little-known but giant British communications company.

"Cable and Wireless is the 14th-largest company in the country," said Netherton, "but it was not well-known to the

public. In fact it was a very modern company and its technology was, in many ways, superior to that of British Telecom. It needed value for money advertising. It was going for a less-wide audience than British Telecom and did not want a repeat of over-subscription like the first share offering. It also wanted to raise its profile in Japan and Canada. It saw the Far East, for example, as a major potential for growth."

Schroder came up with a novel structure for the £900-million Cable and Wireless offering. "We had to ensure that there were enough shares available for the public but, on the other hand, had to consider what would happen if the public did not go for the offering," said Netherton. "We had to figure out a balance. So we decided to sell some to the institutions first so we would be left with only a balance. If the institutions were already participating, then that showed a factor of confidence. Then we came up with an unusual structure where about 60 percent of the £900 million had to actually sell. But, within this 60 percent, some 30 percent were bought by present shareholders so, in reality, there was only 30 percent left for Cable and Wireless to hard-sell to the market."

For Schroder, such involvement has only added to its active profile in the British economy. In 1985, the London division of the company posted record profits and participated in 22 public takeovers and bids concluded during the year.

As a result of its successful involvement with privatization, Schroder is now advising overseas companies and governments on similar ventures.

Telecom's New Commercial Approach

Five years ago, 250,000 people in Britain were on a British Telecom (BT) waiting list for telephone installations. Those with a line had to rent their telephone apparatus from the company, and frequently had complaints on the service. That represented a captive clientele for Britain's sole telecommunications company.

Today, the waiting list has been removed, customers can now choose and buy their own apparatus from a large selection on the market or rent it if they prefer, and the complaints are quickly declining.

While British Telecom's recent improvements cannot all claim to have come about as a result of privatization — many changes were already in the early stages of implementation before the shares were floated — the new company structure and the more innovative approach to management have allowed for broad-based expansion.

William P. Kember, British Telecom's Corporate Financial Controller, believes that privatization's most important impact on the company has been to change the whole "culture" of the communication giant's internal management structure.

"It has enabled us, in the first place, to make more of our decisions on commercial instead of political grounds," he said. Kember pointed out that British Telecom itself is a part of one of the fastest and most competitive growth industries of this age and, as such, required a thoroughly commercial approach to business. The new, commercially oriented Telecom operation hopes to remain an active competitor in the world marketplace while providing more comprehensive business and consumer services back home.

According to Kember, BT already can claim to "run the best international telephone service in the world," basing his claim on, among other

things, the fact that the company is internationally reputed to have the most comprehensive range of self-dial services available through its national network. In fact, Britain offers direct-dial links now to 173 countries — with Chinese links to Peking, Shanghai and Guangzhou becoming the 173rd last Dec. 1. BT also has the second largest share in Inmarsat, the telecommunications satellite which has the U.S. as the biggest contributor, with France third behind Britain.

While BT has branched out into many different communications areas, particularly those relating to business, it has had to follow one constant major objective since privatization to keep prices down for the home consumer.

"During the period of high inflation countries like the U.S. and U.K. faced political pressure to increase their prices," said Kember. "They were really out of balance but, in the past two to three years they have been at the correct level, nearer to the actual cost. And there is a balance maintained."

The company has 1.5 million shareholders, including 95% of BT staff who bought into the company when it was turned over to the private sector in 1984. BT has found it very necessary to live up to their expectations.

This has not proven too difficult to achieve. BT has expanded on its digital services, installed sophisticated equipment in 6,000 telephone exchanges around the country as part of an ongoing modernization plan, instituted a chain of Telecom shops selling a wide variety of apparatus, and has built up a directory of business services to suit the needs of modern day commerce, finance and industry.

"Liberalization has allowed us to be more innovative and to increase our business activities," said Kember. "We've had tremendous business, for

example, with Cellnet, the mobile phone system, with Prestel, the on-line system, and the electronic mail box. And the freedom has allowed us to become active in cable TV and invest in half a dozen franchises. We have also moved into the acquisitions area. Since privatization, we bought the Canadian company Mircel which manufactures PABX equipment, International Air Radio which is into air traffic control and air support communications, and Dialcom in the United States which is the electronic mail system."

One of the most successful innovations, already attracting world attention, has been the City Business System, a touch screen dealing board for the financial community. Introduced in 1982, the CBS was the first system of its kind in the world. It features a television screen which doubles as a data display and touch keyboard. Its terminal can be used by dealers for accessing company information and for sending and receiving telexes.

"CBS has been very successful on the world market," said Kember. "We now have more than 5,000 screens in operation and one new system a week is being installed."

Up to now, the CBS has sold well in Hong Kong, Australia and the United States. Since last October, a Japanese version, specially developed for that market with Kanji characters for the visual display screen, has been distributed by Mitsui throughout Japan.

"The CBS success led us to develop similar systems for non-financial operations," added Kember.

Such innovations have all been good for British Telecom's international image and for the management. As Kember said, "British Telecom is definitely living in a more exciting time. A lot of commercial drive has been set free, and we have become very newsworthy as a result."

Kleinwort Benson

has acted as an adviser in the following privatisations

Saint - Gobain	December 1986
British Gas	November 1986
Cable & Wireless	December 1985
British Aerospace	May 1985
British Telecom	November 1984
Enterprise Oil	June 1984
Cable & Wireless	November 1983
Associated British Ports	February 1983
Cable & Wireless	November 1981
British Aerospace	February 1981

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Amersham Makes a Smooth Changeover

One of Britain's most interesting companies to bid for privatization was undoubtedly Amersham, the radioactive isotope supplier which, so to speak, got into the business by accident in the first place.

Its debut in the field of producing and researching radioactive substances came after consignment of radium ore for luminous paint from the Belgian Congo destined for Germany was intercepted just a year after the declaration of World War II.

At that time, England did not have any radium but certainly had found use for some. So the government commissioned the company Thorium to refine the substance so it could be used for diverse applications such as luminous paint. Thorium passed on the task to one of its scientists to find a lab equipped for such a task. The search was fruitless until one night, while consoling himself in a good old English pub in Amersham, the scientist was informed that a good piece of real estate with a house was up for sale right next door. He bought the house, set-up laboratories and the rest is history, including the Amersham staff who, after 46 years, still pay their visit to the famous pub, the White Lion.

A few years after the end of the war, great progress was made in the field of man-made radioactive products. In 1954, this whole development area became part of the U.K. Atomic Energy Authority and continued what was termed in those days as "peculiar operations." By 1958, it had asked the government to be responsible for manufacturing and marketing all products derived from radioisotopes. By 1964, it had become a self-accounting business operation.

With such an individualistic and strong business perception, it is no wonder that Amersham progressed so well, so quickly. As Burgess, the Chief Executive of Amersham points out: "Amersham has had a consist-

ent theme which has been that regardless of ownership, the operation was always run as a commercial enterprise. So actually, privatization made no difference for us, as it did for a company like British Gas who were never run as a commercial venture."

The privatization wave hit Amersham in 1971 when a bill was issued authorizing the government to sell up to 49% of the company. The government, however, wanted to sell off the whole operation, so an Act of Parliament was required. The Act was announced in 1979 and when privatization occurred in February 1982, £71 million of shares pulled in £1.75 billion worth of applications. The first day trading generated £20 million, a blow to the government who had just previously overpriced the Btair tender, and had now priced Amersham far too low.

From the employees' point of view, Burgess recalled, privatization was initially received as a potential threat to their stable and secure jobs. "The company was successful," he says, "and they were getting good benefits, so they wondered what privatization had in store for them. At that time there had been only two privatizations and Amersham was the third."

Out of the endless discussions between Amersham and the government, emerged the creation of what is now referred to as the Golden Share. "While working out a deal for us," said Burgess, "the government was also preparing for the privatization of Btair. During one of our conversations, the topic came up of how they could keep some sort of control over the company, which was a must considering it was such an important resource of energy. So we all came up with the concept of the Golden Share and it was decided that it would be applied to Amersham also. The Golden Share as applied to many of the privatized companies, is an all-powerful government share in a very restricted

sense, which protects the articles of the company. It holds no values or dividends, but it can stipulate, for example, that no one shall own more than 15% of the shares. Burgess explained that the government has "powerful weapons to fight this if they suspect someone. They can require him to sell down to 15% and have no voting rights until then."

Dr. Burgess, a young 37 year old, joined Amersham in 1953 as a research chemist directly from University College, London and soon went into the production side. By 1960 he had switched to marketing and was running Amersham's U.S. company. "Amersham was always considered the oddball as far as



Dr. Burgess

the government was concerned," said Burgess. "We were small and yet commercial, so we were always allowed to get on with the job. As long as the business was successful, there was a hands-off policy."

Although Amersham is known for its radioactive products, in the past few years its business has been shifting into non-radioactive products. "We've gone through a few stages since the late forties," commented Burgess. "At first we dealt with natural radioactivity but then we were obviously limited by the supply of such substances. And as the products become more sophisticated we had to find an alternative route. Man-made radioactive substances are created through a nuclear reactor and we use two which operate by

turn on a three-week period."

But although radioactive products have been the lifeblood of Amersham, their skills are evolving one step ahead of the clients' demands. "We are getting more and more into the chemistry side to research and meeting the specialized needs of the customers regardless of whether or not they are radioactive," said Burgess. "We make, for example, diagnostic products which we call 'chemistry set with a recipe.' This involves taking a blood sample and doing a test according to the instructions of our recipe. We'll provide the tube with a substance and by following the instructions you can tell if the patient has cancer, is pregnant, or has a problem with the thyroid function."

Previously, nothing as sensitive as radioactivity existed, but Amersham has now come up with a unique technique that is even better. This consists of measuring with light, using signals instead of radio-activity. The advantage is that there is absolutely no radioactive use and the signals can automate the process. It is also more cost effective, quicker, and efficient.

Burgess is the first to recognize that the market is moving towards non-radioactive alternatives. "Amersham reacts to clients' needs," he said, "so we have introduced a new sector of non-radioactivity."

For the past five years, Amersham has experienced a 20% growth rate and is continuously diversifying. In 1986, out of the 120 new products added to its range, three quarters were non-radioactive.

Most of its exports are in Europe, representing half the export figure, with a quarter going to North America, and some in Japan. Amersham holds a strong position in North America with a 15% growth each year representing a 20% return. "We are successful," concludes Burgess, "because our products are first rate."

Kleinwort Handles Big Privatization Moves

How does a merchant bank that owns part of the gold ring, has ship brokerage and substantial banking interests, operates a management advisory service, is involved in capital marketing, corporate finance, in futures and Eurobonds and Eurobonds and has just acquired a stockbroker, find the time to become heavily involved in Britain's privatization process?

Ask Kleinwort. It acted as advisor for British Aerospace, Cable and Wireless, the Association of British Ports and advised the British Government on Enterprise Oil, British Telecom and British Gas. In several of the early privatizations, in fact, it was playing a dual role in advising both the government and the company.

Kleinwort's success can obviously be put to good management. Its success at privatization comes from the same spirit of drive and initiative and, for Kleinwort in London, long hours put into achieving such goals. David Clementi, Director, explained: "Privatization is really not much different from corporate financing except for the marketing of the Government shares."

If that sounds simple, it really isn't. A merchant bank, like Kleinwort, generally is the first appointee for a privatization candidate. It will be expected to assume the role of coordination. The government will then appoint lawyers and then stockbrokers to advise and handle the institutional marketing of stocks. Highly qualified research teams will be brought in before the government moves on to appoint a public relations company who will handle the

presentation to investors and the general public through the media and also take care of the physical design of the prospectus. A printer has to be chosen who can guarantee a no-flaw service for the abundance of literature required. In such appointments, Kleinwort has to advise the government on what to ask for and what to expect. They also have had to ensure that a good team was put together from the start.

Kleinwort was, so to speak, fished into the deep end from the start of their association with privatization: the first project they tackled was British Aerospace, which represented a mammoth £150 million issue. After British Telecom and British Gas, that figure today, seems small, but back at the time it was considered huge.

"With British Aerospace, we were really feeling the way," said Clementi. "We were acting for both the government and the company and setting the pattern of operation that we would follow in the future. There were the obvious questions: how do you present such a company? How do you gauge how many people will apply? We learned a lot from our involvement with British Aerospace and we have built up a great deal of experience since then."

Clementi said that the most difficult aspect of handling a privatization is the actual logistics of the whole operation. British Aerospace, for example, represented over 30,000 applications but British Telecom brought in over 2 million. The details of handling the printing, distribution and follow-up

for these applications, plus the production, printing and distribution of millions of prospectuses — there were seven million for BT, which had to be available at several thousand locations — create quite a mammoth task. And, as Clementi points out, "There is absolutely no room for error or delay. Nothing must go wrong."

In its advisory role to the government, Kleinwort draws from its own pool of expertise to study and evaluate a four-point structure leading up to the actual privatization process. It will deal with valuation, the capital structure, the proposed regulatory structure and the marketing procedures.

"In the valuation process, we examine the conceptual issues and the practical aspects," explained Clementi. "It's a process where we will be putting a money value on the sale price of the company."

On the capital structure side, decisions have to be made on how much debt or equity exist if a debt should be restructured, if preferential shares should be offered and the form the structure itself should take.

While Kleinwort is not actually involved in drawing up the regulatory structure generally the government outlines this it is expected to study the outline and to evaluate the impact that it will have. The marketing and structure of the offer will decide how many shares are going to be offered and whether or not the whole company should be sold at once or in a series of tranches.

"If it sold off in tranches," explained Clementi, "the government can re-evaluate the val-

ue at each stage and maybe make more money that way. For example, British Telecom sold 51% in one offering and the rest will be sold off in 1988."

Selling in tranches, however, provides many more complexities. "It requires a great deal of study," said Clementi. "There are several problems to consider. Sometimes investors (in tranche offerings) tend to mark down the price because of the uncertainty. Then there are the Treasury's views on the subject. If the government stake remains greater than 50%, then it can be said that privatization is getting out of the public sector — if the government owns more than half, then the company is not really privatized. And, when the government does keep more than half, then the transitional stage is complex. For example, if the public holds 25%, then the government is not a passive shareholder so it would have the freedom to make political decision with its majority of shares."

But sorting out such problems, between all its other activities, has now become a regular task for the Kleinwort privatization team. It has led to Kleinwort advising the Malaysian government on the possible privatization of its telecommunications and ports sector, advising Saint-Gobain on its recent share issue and discussing other privatization schemes in the U.S., Canada, Scandinavia, the Netherlands, France, Italy and Spain.

As Clementi concluded, "Our involvement in Britain's privatization has provided us with considerable expertise."

NFC Emerges a Winner

Fate couldn't have played a better hand at sorting out the ownership of the National Freight Consortium.

On the eve of flotation, one of the company's largest contracts with British Rail Express Parcels was suddenly cancelled, meaning a loss of £25 million worth of business. It appeared the government's only solution would be to sell the company off to the highest bidder.

However, according to NFC chairman Sir Peter Thomson, "The thought of selling off NFC to the highest bidder really worried the management. We were asset-rich and had acres and acres of unused properties, old warehouse sites, that had good real estate value. We didn't want to see it all go. The only solution was to buy the company from the government ourselves. So, we went to the government and asked how it would feel about us trying to organize a management led buyout."

"To succeed, the management had to raise six million pounds. With that kind of money involved, it needed to fire enthusiasm among the entire staff of the fifty companies tied up in the consortium. It also needed to go the rounds with lawyers and banks."

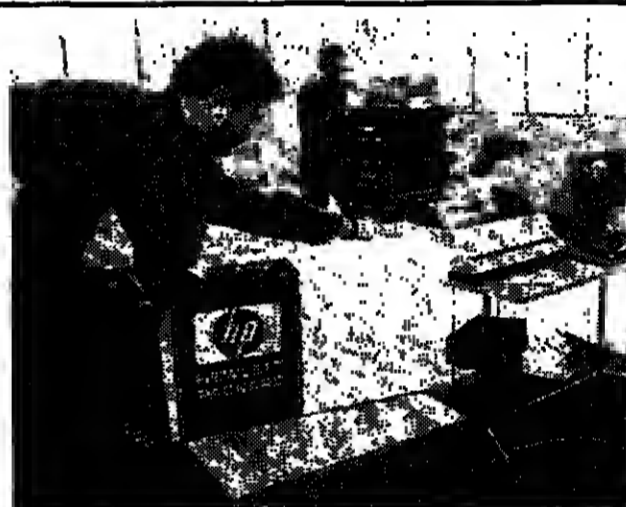
"We found a consortium of banks prepared to put up most of the money for a small amount of shares," said Muriel Craddock, public relations officer, "but it stipulated that the directors of the company must also make personal investments as proof that they would make it work."

The chairman put up £40,000 and then about 100 top-senior management staff were asked if they would consider putting forward £10,000 each to back the bid. All liked the idea, so the next step was to go around the country and talk to the 2,500 managers.

"We put together a roadshow on the scheme," said Craddock. "It travelled around for two weeks and was a resounding success." With the management behind them, the company now had to convince the employees to take a similar position.

"The Chairman is a man with a vision," continued Craddock, "so we wanted him up front, but there were 700 locations to be covered and he couldn't do them all."

"We made a video with an accompanying text for distribu-



NFC transports delicate office equipment.

tion. Then, one Sunday, special telephone lines were installed and the directors manned them to answer any questions that the staff had. Everyone was being offered a £200 interest-free loan to buy their shares and, because we really did not know what kind of feedback we would get from the staff, the same applied to pensioners and their families. We needed to raise £6 million so it was huge communications problem."

The interest, however, eventually led to the company being oversubscribed and it now has 23,000 shareholders in the U.K.

"It wasn't easy going," explained Craddock. "We had to present the prospectus to all the workers from the drivers on through the fitters and the secretaries."

The verbal tonnage, and the managerial effort paid off and in February 1982, a check enabling the management-led buyout was handed over to the Secretary of State for Transport.

Since then, the company has never looked back. "When privatization came," explained Sir Peter Thomson, "we took a new look at the company. There were plans to be made, like how much should we reinvest into it, what kind of diversification should we go into. Above all, we wanted to watch costs and increase the quantity of existing areas of business. You can't really quantify what privatization meant but it did make us more aware of our image. And it ended the constraints we had faced in the government sector. Before the change, we had been limited on money and had horrendous interest to pay the government. And there was a narrow, blinkered view of what we were allowed to do."

On the top of the list of the new company strategy was a decision to invest overseas in

the related service sector. Their first foreign acquisition was a company in Australia which had been suffering financial losses but has since been turned around into a profitable business. Others followed and with each acquisition, overseas employees of the new company and those back at NFC are offered shares. When it began to tap the U.S. market, and bought its first U.S. company in 1984, for example, over 70 percent of the U.S. employees purchased shares.

"Our long term strategy is to increase our overseas activities," explained Sir Peter. "By 1990, we expect that about 25% of our profits will come from abroad. We are a service industry and we want to ensure that we rid ourselves of business risks and become less dependent on the British economy. The solution to that is to buy abroad, but the companies must have the right criteria, and must be synergistic with our companies in management and areas of business."

The strategy seems to be paying off. Since privatization, NFC has been able to invest £100 million a year into the business which more than doubles the government maximum reinvestment of £45 million a year.

Diversification and expansion of existing areas of business have gone hand in hand. It has, for example, spread its former British removals network overseas to the U.S., Australia, New Zealand, Hong Kong, Singapore and Spain. It is planning to move into a full international network that would pack up all types of objects in Britain, transport and unpack them overseas. "We're really into any type of movement of goods by road or people by air" said Sir Peter.

Meanwhile, the 25,000 employees of NFC are sharing in the consortium's new found fortunes. Sir Peter concluded, "We have a family feeling, a group commitment. We all know about each other and work toward the same goal. Instead of us being the bosses these days, we find that the workers are ours. It's an unusual partnership that works. And we are growing faster than any other competitor. Maybe we just had that touch of magic."

LEADERSHIP IN EQUITIES

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INTERNATIONAL Herald Tribune

Iran, Iraq and America

The fierce passage of fighting in the six-year-old war between Iran and Iraq has caught U.S. policy in disarray. The practical and principled position of neutrality, discouraging arms sales to either side, has been wrecked by news of the White House's covert policy, trading arms for hostages and supplying intelligence to both sides.

What Is the SDI Policy?

In Geneva, American and Soviet negotiators are trying to work out a strategic arms control agreement, but the battle that is being waged back in Washington. It is the fighting over the terms on which to deploy President Reagan's Strategic Defense Initiative for a space-based defense against missile attack.

After a Visit to Africa

On his long-overdue visit to Africa, what George Shultz has prescribed for the troubled continent is more private enterprise and more local initiative. That is good advice, but Africa's troubles and America's interests there require more. Apart from a discredited note on human rights, the tip Africa has been far lower on Ronald Reagan's priority list than on Jimmy Carter's, with the exception of troubled southern Africa.

Other Comment

AIDS: It's Prudent to Panic I am not a doctor. I leave to scientists judgments about the potential spread of AIDS in the general population. Their judgments are in, and virtually none now doubts that AIDS spreads quite efficiently through ordinary heterosexual intercourse.

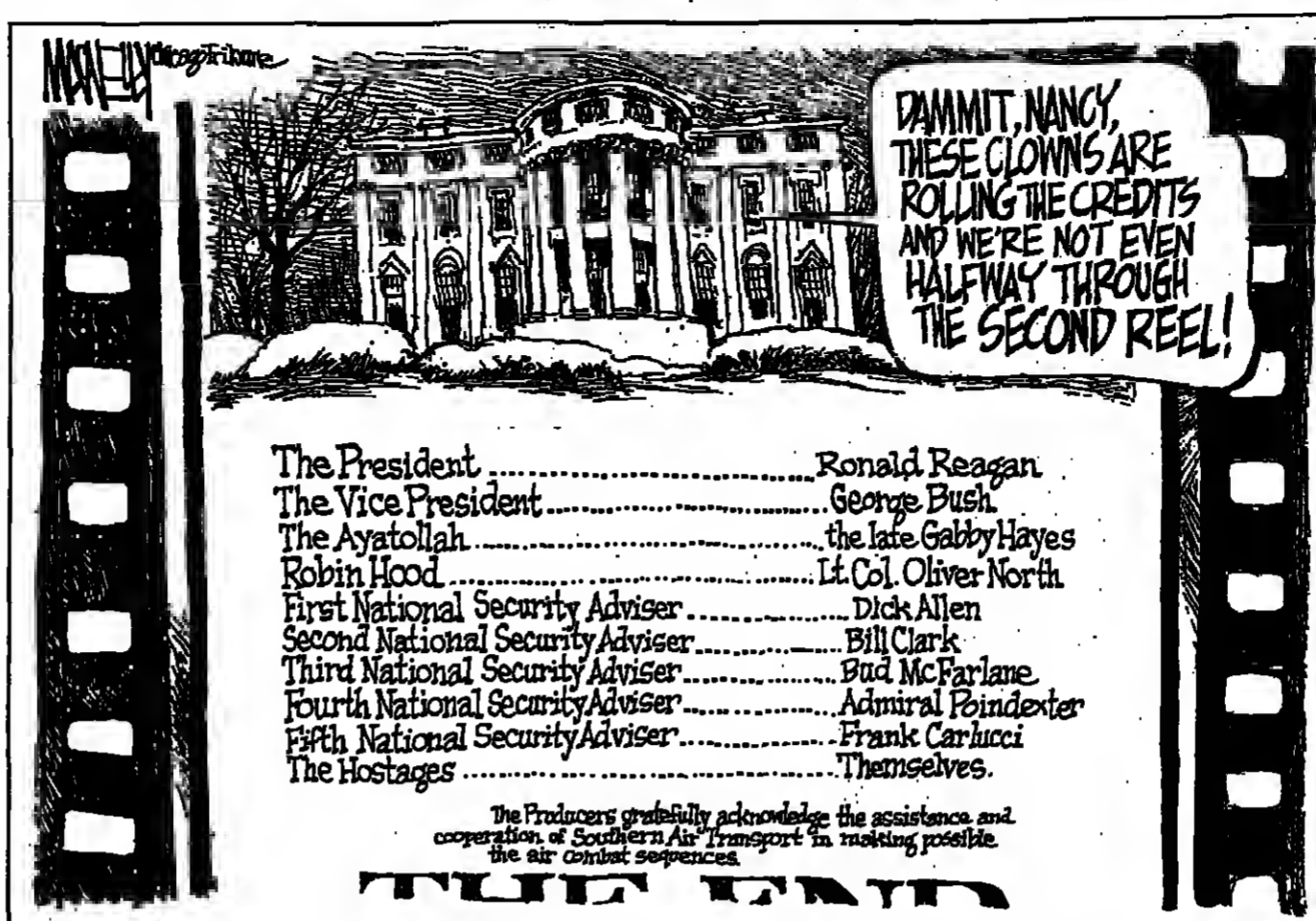
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OPINION

Tugging On A Trio of Loose Ends

By Jim Hoagland PARIS — The wending revelations of Iran-contra-Bruni-Israeli-gate suggest that the Reagan administration has run its diplomacy and national security planning on the principles of the junk bond market. By whatever name, this exercise turns out to have been a field day for policy salesmen and middlemen out to acquire real assets today on the cheap in return for promises of a bigger payoff down the road for everybody else.



There Is Much Unfinished Business on King's Day

WASHINGTON — Today, Jan. 19, the United States for the second time commemorates the late Martin Luther King Jr. with a national holiday. On Oct. 26, 1960, Mr. King was traveling in Georgia in a bus when he was arrested on charges of breaking an anti-trespass law. He and 35 others, all black but one, had refused to leave Rich's Restaurant after waiters refused service.

Nonviolence Was King's Chosen Tactic for Achieving Justice

ATLANTA — In 1935 a group of black leaders invited Mahatma Gandhi to come to America to assist their struggle for equality. Gandhi politely declined, replying, "How I wish I could, but I must make good the message here before I bring it to you... It may be that through the American Negro the unadulterated message of nonviolence will be delivered to the world."

The 'System' Will Survive The Sad State of Reagan

WASHINGTON — On Jan. 27 President Reagan will deliver his seventh annual State of the Union message. He will address the 100th Congress of the United States at the beginning of the 200th anniversary of the Constitution. Candy Weinberger says we are living through a "really remarkable American renaissance," but some folks in Washington think the state of the Union is not so hot.

Symptomatic Crime Will Continue

THE Howard Beach incident on Dec. 20 — the beating and chase-to-the-death of a black man and the beating of his two companions by white youths from that New York neighborhood — is a reminder of the split in the historic base of the Democratic Party between working class whites and poor blacks. From Richard Nixon's "Southern strategy" to Ronald Reagan's talk of "welfare queens," Republicans have wrung political profit from the white backlash.

Stereotyping, Discrimination, Violence

THE justifiable fear and resentment of blacks against the bigotry of significant numbers of whites should be understood and understood sympathetically. The fear of crime is also understandable, and the fear of black crime has some basis in truth. But none of these fears, among other blacks or whites, justify stereotyping, discrimination or violence.

Howard Beach Started 200 Years Ago

AMERICA was racist even before the Constitution sanctioned slavery 200 years ago. At best it is a strong anti-racist leadership from politicians by fits and starts. Racism has been explicitly supported, and at other times sanctioned by winks and by nods. People's lives are horribly stunted when they are denied adequate education, decent jobs, suitable housing and a sustaining hope. The need is for national and local leaders who fight those evils daily, not posturers who don't raise their voices until somebody has been killed for being lost and lonely in the wrong neighborhood.

LETTER

IN OUR PAGES, 75 AND 50 YEARS AGO

Andreotti as Dupe? Of the many unusual images currently emanating from the Reagan White House, perhaps the most curious is the vision presented of Giulio Andreotti as a victim of William Wilson's deception. The idea seems to be that the former U.S. ambassador to the Holy See bamboozled Italy's current foreign minister (and, in the past, five-time prime minister) into believing that Mr. Wilson had been authorized by the U.S. government to confer in November 1985 with Muammar Gadhafi of Libya, when in truth he was not. Mr. Andreotti is probably the most experienced diplomatic wheeler and dealer this side of the Iron Curtain, with an unmatched range of contacts. He is not known for a lack of mental acuity or guile. Mr. Wilson, on the other hand...

صكزامن الاصل

PERSONAL INVESTING

FOCUS

Dollar Fallout Leaves Goldbugs Disappointed

THE DISAPPOINTMENT was almost palpable. In gold dealing rooms around the world last week, traders were expressing frustration at gold's sluggish response to the turmoil in the currency markets.

"The market was certainly more active," says Frederic S. Bogart, a senior vice president and gold trader at Republic National Bank in New York. "But I can't characterize it as solid business all day, because there wasn't it."

Indeed, much to the dismay of goldbugs, prices have moved upward at roughly the same pace as the dollar has declined. This is somewhat puzzling since gold, traditionally viewed as an alternative investment to the dollar, is considered more volatile.

ADDDING TO THE CONFUSION is the apparent equanimity with which the gold market has greeted OPEC's recent price accord. Although oil prices have firmed in response to the agreement, it has not produced any widespread inflationary jitters.

There are a number of factors blunting the current rally. A paramount problem in the minds of many investors is the lingering doubts about gold. Many investors were disappointed last year when gold broke through the "psychological" barrier of \$400 last September, climbed to \$443 in October, and then proceeded to give up many of its gains.

Moreover, major gold producers, like the Soviet Union, are thought to have stepped up sales as prices became more attractive. "In the end, production tempered the buying," says Paul Cain, a precious metals analyst with Shearson Lehman Brothers.

Another development that has detracted from gold's appeal has been the resurgence of interest in U.S. stocks now that the Dow Jones Industrial average has vaulted over the 2,000 level. "A lot of people still believe the big plays are in financial assets," notes James Knolesky, president of Cambridge Commodities Corp. in Massachusetts.

Despite such constraints, the market is far from bearish. Despite periodic corrections, prices appear firm. And if the dollar remains weak, many analysts say gold could once again climb above \$440 in the near term, possibly higher by the end of the year. "Nobody is unhappy with gold," says Mr. Knolesky, who thinks \$362 to \$443 may be a fair trading range. "But you can see how a bull might be quite disappointed."

John Meehan

UPDATE

U.S. Voting Debate: The Latest Chapter



John Shad

THE NEW YORK stock exchange's controversial proposal to loosen its one-share, one-vote rule has received a boost from a Securities and Exchange Commission study showing that stock prices change little when companies issue common shares with limited voting rights.

In a study that has yet to be released, Amette Poulson, acting chief economist for the SEC, said agency staffers examined about 65 companies that issued common shares with unequal voting rights and found "no significant impact on stock price."

But such theories do little to silence critics. Robert Monks, president of Institutional Shareholders' Services, argues that price studies are misleading because many companies that have issued dual class already had a high degree of power concentrated in management.

Companies eager to avoid a hostile takeover sometimes issue high-yielding stock with little or no voting power in exchange for outstanding shares. Ms. Poulson said the SEC study suggests that investors may believe that higher dividends and other inducements attached to the non-voting stock offsets any danger posed by relinquishing control.

But such theories do little to silence critics. Robert Monks, president of Institutional Shareholders' Services, argues that price studies are misleading because many companies that have issued dual class already had a high degree of power concentrated in management. Furthermore, he said, inducements to accept voteless stock are "fundamentally coercive."

In public hearings last month, SEC Chairman John Shad suggested that he favored a compromise to the NYSE plan, possibly requiring a uniform standard among all exchanges. "I would suspect that is the way it will go," Ms. Poulson says. An SEC spokeswoman said the commission likely will act on the proposal sometime in the first quarter of this year.

Phil Roosevelt

Cashing In on Europe's Denationalizations

The sell-offs will continue in 1987, bringing some big names to market.

By Lynne Curry

IT WAS DUBBED the perfect deal, and many investors found it hard to pass up. By the end of a weeklong public offering that followed an elaborate \$41-million marketing campaign by the Thatcher government, more than 4 million individual investors had signed up to buy stock in British Gas under the most ambitious privatization plan ever undertaken.

Thanks in part to a three-step payment plan that required an initial outlay of only 50 pence (about 75 U.S. cents) a share for the state-owned gas utility, the £5.65 billion offering was easily oversubscribed. And despite some grumblings that there should have been a bigger response, British Gas had already climbed to 67 pence by the time it began officially trading Dec. 8 on the London Stock Exchange.

"It was a chance of making a little bit of money," recalls Eric Russell, a 41-year-old telecommunications supervisor in London, who was lucky enough to get 350 shares at the offering price. He sold his stake when it hit 62.5 pence.

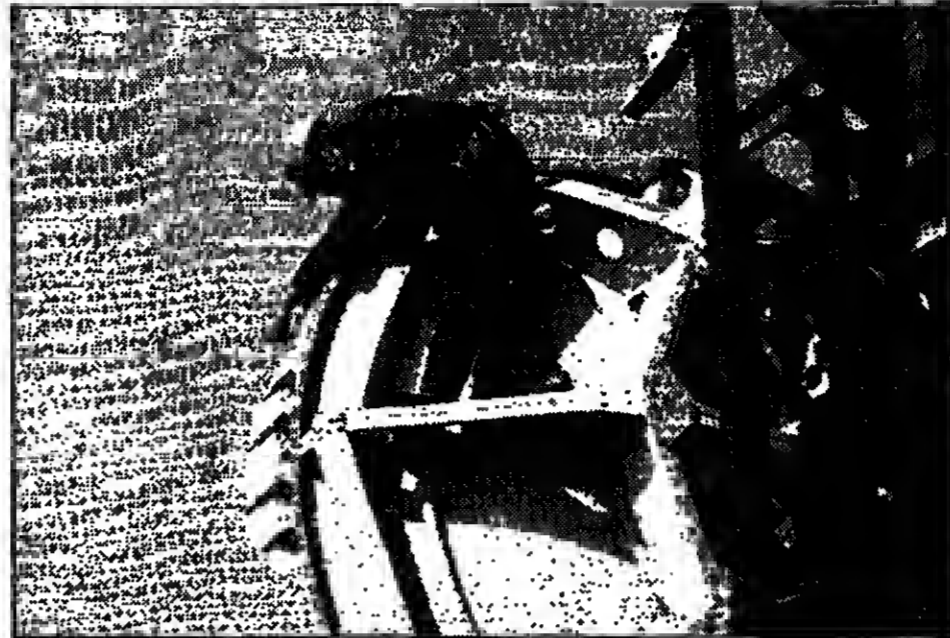
The success of the British Gas offering and equally enthusiastic market response last month to the French government's sale of Saint Gobain, the industrial glass and engineering group, indicate the kind of interest that privatization is generating in the investment community.

Ever since British Telecom was sold to the public in 1984, investors have been waiting eagerly for governments to sell off other state assets in the hopes of finding a similar bargain. The successful sale of the telephone utility is generally viewed as a watershed in the process of privatization because of the scale of offering and the interest it generated. At the same time, its share price has quadrupled since it was offered.

This year promises the least schedule of privatizations to date. No fewer than 11 major industrialized countries are planning to sell off all or part of their interest in state-owned concerns, though the pace of the offerings is still unclear in many cases. These range from Iberia airlines in Spain to Japan's Nippon Telegraph & Telephone. Even in the United States, where public ownership has traditionally played a relatively minor role in the economy, the government intends to sell off almost \$8 billion worth of assets, including its stake in the troubled national railroad, Conrail.

Not surprisingly, much of the investor interest has focused on Britain and France, which have put forth

(Continued on Page 10)



TELECOMMUNICATIONS British Telecom shares have quadrupled since it went public in 1984.



FINANCE Paribas will test investors' appetite for French banks.



MANUFACTURING A St. Gobain fiber plant. Its offering was major success for the government.

FOR SALE IN '87

Paribas

The fifth-largest French bank in assets and a strong player in domestic and international capital markets, Paribas sale will set the tone for the planned denationalization of Credit Commercial de France. Twenty-five percent of the capital has traded on the Bourse as nonvoting stock. Of the voting stock held by the government, half will be sold to the French public and the rest to French institutions, foreigners and bank employees.

CGE

Compagnie Generale d'Electricite has been designated as the next French industrial group to be sold off, possibly as early as May. CGE recently paid \$577 million for 55.6 percent of a joint venture with ITT. The venture ranks as the second-largest telecommunications group after AT&T. Analysts believe CGE profit rose 15 to 20 percent in 1986 from 1985's \$1.2 billion francs.

TF1

TF1, France's biggest television network, may also be on the block, in the first half. Only 40 percent is expected to be sold publicly, with 60 percent to be placed with one or two big conglomerates. Overstating was blamed by many observers for TF1's 176-million-franc loss in 1985, but it may have broken even in 1986. The sale could bring up to 5 billion francs.

British Airways

After years of delay, British Airways goes to the market next month, latching just under £1 billion by some estimates. The prospectus says the airline's pretax profit could fall 20 percent to £145 million in the year ending March 13, but analysts expect a better showing in fiscal 1988. Given the volatility of the airline business, the issue has been pitched to big investors. Expected price is 120 to 135 pence a share. (About 20 percent of the offer will be sold abroad.)

British Airports Authority

British Airports Authority owns Heathrow, Gatwick, and several other airports in Britain. Deriving most of its revenue from landing fees and duty-free sales, analysts call it a steady, if slow-growing business. A potential constraint is the difficulty of enlarging its London-area terminals. The offer could fetch from £600 million to £1 billion. Estimated share price: £1.

Rolls Royce

This maker of aircraft engines has always had strong military orders but is beginning to cash in on its development of engines for civil aircraft, analysts say. Pretax profit nearly tripled in 1985 to £81 million. Estimates of its sale value range from £500 million to £1 billion.

FUNDS

A New Set of Sophisticated Funds

Their bag of tricks includes index arbitrage and portfolio insurance.

By Phil Roosevelt

DISCOURAGED by program trading? Overwhelmed by those big institutions and their jumbo computers? Don't despair. The U.S. mutual fund industry, which has long portrayed itself as a haven for "the little guy," is serving up some funds that plan to use the same computerized techniques employed by Wall Street's most sophisticated investors.

Already, at least two mutual funds are using "portfolio insurance," a computerized hedging strategy involving stock-index futures. And another fund still in the works is planning to couple insurance with the most prominent form of program trading, stock-index arbitrage.

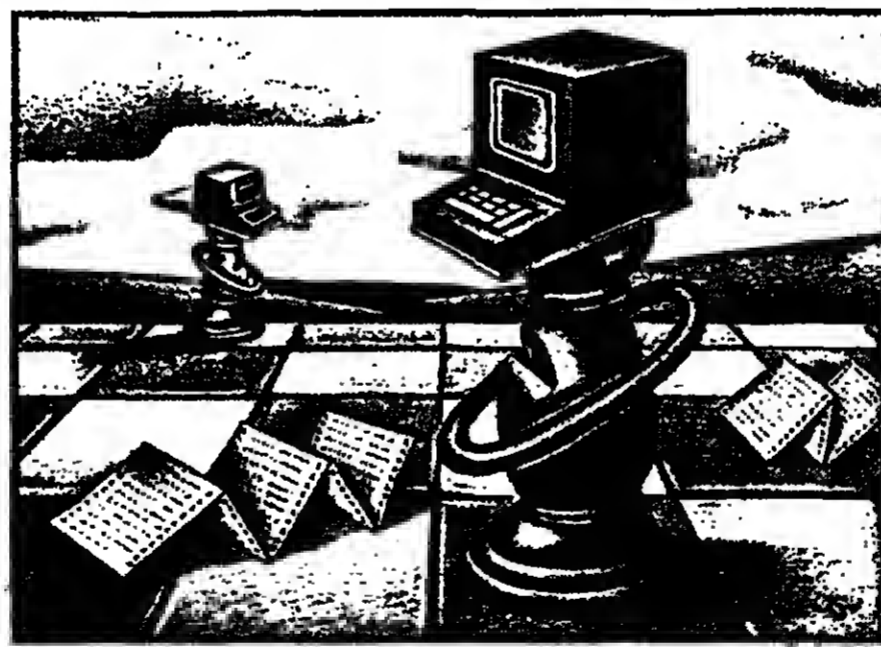
Just how well this emerging breed of fund will perform is still anyone's guess. For now, however, the funds are at least winning some high marks for effort. "I think anything that gives investors more choice is beneficial," says Joseph Grundfest, a member of the Securities and Exchange Commission.

In the past, most individuals had little opportunity to participate in program trading. Index arbitrage, a method of profiting on price disparities between stocks and futures contracts, requires elaborate computers, anywhere from \$5 million to \$25 million in capital and a team of talented technicians. Portfolio insurance, though less demanding in its capital prerequisites, still calls for constant attention and a solid grasp of hedging theory.

Now, the admission price is falling. With a minimum investment of \$2,500, for example, individuals can take part in Strategic Investing, a new mutual fund offered by Dreyfus Corp. The \$18-million fund backs up its selection of blue-chip stocks with an insurance strategy, hints it may try stock-index arbitrage and boasts an array of other techniques, including selling stocks short in falling markets and buying issues with borrowed money to leverage its portfolio during rallies.

Dreyfus maintains that all this gives the fund "the flexibility to make money in almost any kind of market." And, in the first seven weeks after the fund's launch, net assets rose by 3 percent, compared to a 2 percent climb by the Standard & Poor's 500 Index.

Tax changes in the United States are partly responsible for the creation of such funds. Michael Lipper, president of Lipper Analytical Services, says a tax provision that had discouraged mutual funds from deriving more than 30



Charles Walker

percent of their income from short-term investments was amended to exempt income earned from "hedging."

But Mr. Lipper also suggests that fund managers sought an attractive marketing opportunity in program trading. "There is a consumer market intrigued by this kind of thing because of press reports saying, rightly or wrongly, that programs make stocks go up and down," he adds. "I imagine there will be more funds following if these ones prove successful either from a marketing or an investing standpoint."

For investors, the main task is to examine how the techniques work and what they can—and cannot—accomplish for the funds.

PORTFOLIO INSURANCE, the most common program strategy among the new funds, started to gain favor among institutional investors about two years ago, following the development of the stock-index futures market. The strategy calls for assembling a portfolio that moves in step with a major stock index, and then reducing the risk through systematic use of futures contracts based on the index.

"You end up participating pretty well when the market is rising, and you can sleep at night when the market is falling," asserts Ghish Reddy, a senior vice president at Leland O'Brien Rubenstein Associates, a money management firm and a leading practitioner of the strategy.

Over periods of five years or more, Mr. Reddy concedes, an insured stock portfolio will probably lag an uninsured counterpart because of hedging expenses. He adds, however, that an insured stock portfolio will generally outperform financial assets investors the conventional way: 60 percent in equity, the rest in money market instruments. "Many investors are hedging inefficiently," Mr. Reddy argues.

Portfolio insurance is central to the Equity-Guard Stock Fund, a \$20-million closed-end fund that started trading on the American Stock Exchange last August. It is managed jointly by RepublicBank of Dallas and Skye Investment Advisors Inc.

The fund has about 40 stocks in a range of industries, yet the portfolio closely tracks the movements of the S&P 500. After an initial hedge is established, computers trigger the sale of futures as soon as the index drops by two or three percent. With any further decline in stocks, the fund can buy back the futures at a lower price, thus reaping a profit to offset equity losses.

"If you set the trading threshold much lower than 2 percent, the amount of extra safety you get is negligible, and the trading costs hurt you," says Paul McEntire, president of Skye.

EquityGuard officials maintain that their approach should result in annual returns of no less than zero in a bear market. In a bull year, they say, hedging expenses are likely to drag returns two to six percentage points below those of the S&P 500. From the fund's start in August through December, net assets rose 1.09 percent, while the S&P 500 fell by 3.21 percent.

"We envision this appealing to a risk-averse individual who wants to earn more than he would in a money market fund," says Edward Anderson, chief investment officer at RepublicBank.

For investors who want more excitement, Kidder, Peabody & Co. might have an answer. In a filing with the SEC, the firm has proposed a fund that would assemble a portfolio mirroring the S&P 500, back it up with computerized insurance efforts, and also use a form of stock-index arbitrage.

According to the filing, the fund may swap

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BOURSES

Cashing In on Europe's Denationalizations

(Continued from Page 9) the most extensive plans for privatization. It has been a key component in the conservative agenda pursued by government of Prime Minister Margaret Thatcher since coming to power in 1979. So far more than £7 billion in state assets have been returned to the private sector. Aside from British Telecom, Jaguar, Britoil and Cable & Wireless have been among the more well-known companies to be sold off.

The list of assets includes such companies as Compagnie Financière de Paris, Assurance Générale de France, Crédit Commercial de France and Compagnie Générale d'Electricité, TFI, France's biggest and oldest television network, and Agence Havas, a media conglomerate.

forces to promote their competitiveness. "This particular government has felt for a long time that state interference was detrimental to running companies," notes Roger Nightingale, chief economist for Hoare Govett, referring to the Thatcher administration. "It wanted to get companies like Jaguar and Amerham back into public ownership. These were ordinary companies that happened to be state-owned."

Of course, underpinning the privatization drive has been the long bull market in equities. Not only has it popularized share ownership, but it has also expanded the capitalization of stock markets, enabling them to adequately absorb a series of large offerings.

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But this free-wheeling trading in privatization shares yet to be issued seems to be grinding to a halt, largely because of the government's anger over the frantic gray-market activity in British Gas shares. Gray-market dealings fueled a speculative attitude toward the offering and greatly complicated its pricing, officials have complained.

Until the flap over British Gas, London's gray market had been propelled along at a feverish pace by three niche players: Harvard Securities, Prior Harwin, and Cleveland Securities. With a fizzle unmoored under the din of Britain's Big Bang of deregulation, the first two recently withdrew from the gray market altogether, while Cleveland has sworn off advance dealing in privatization issues, including that of British Airways at the end of this month.

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S. Redinger

Casting a Pall Over London's Gray Market

LAST FALL, investors eager to deal in British Gas did not have to wait for the shares to be issued. Instead, they could trade in what is known as the gray market, where prices were being quoted on commitments to deliver shares when the issue was officially listed.

Group, the merchant bank handling the British Airways floatation for the government, has let its distaste for gray-market dealing in the issue be known through reports appearing in the British press.

Casting a Pall Over London's Gray Market

Mr. Lawrence, clearly aggravated by hostile press commentary alleging that gray market dealing presents a misleading picture to investors about the anticipated pricing of a new issue, says, "In the past 80 issues, we've been absolutely right on the price, with the exception of one issue."

Casting a Pall Over London's Gray Market

Mr. Lawrence insists that there has been no official pressure from government authorities to close down the gray market. But Hill Samuel

Casting a Pall Over London's Gray Market

Aside from Paribas, whose consolidated net income is expected to reach compared to 3.7 billion francs (about \$387 million) in 1986, investors are also eagerly awaiting the privatization of Agence Havas, an advertising and publishing group that will likely be sold off this year.

Casting a Pall Over London's Gray Market

Not surprisingly, global portfolio managers are placing greater emphasis on the privatizations in France where banks, insurance concerns and media companies dominate the schedule.

Casting a Pall Over London's Gray Market

Paribas tends to be a little more attractive than the forthcoming British privatizations in lumbering utility companies," says Richard Reid, an economist at Phillips & Drew.

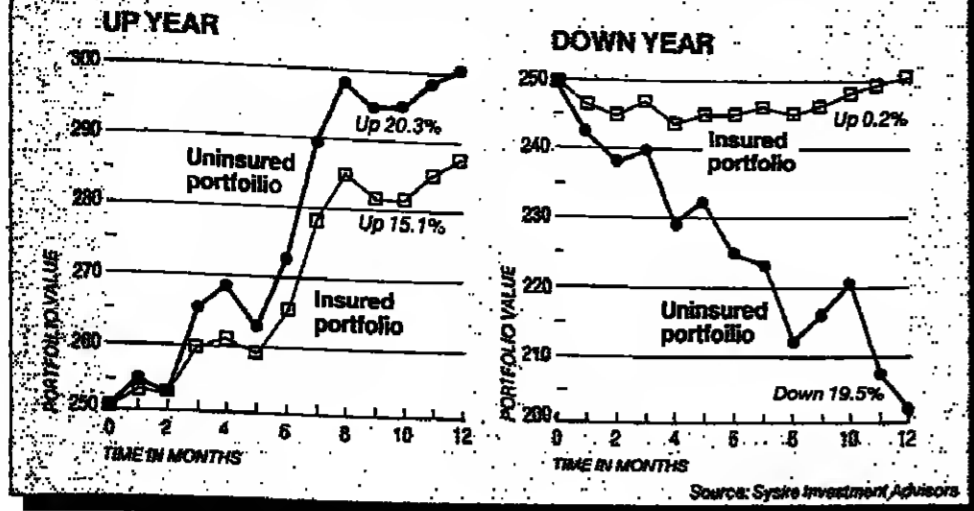
Casting a Pall Over London's Gray Market

IN ADDITION, some analysts are more upbeat about the economic situation in France than in Britain. Michael Woodward, an investment manager at Ivory & Sims, an Edinburgh-based pension fund manager, notes that French corporate profits are expected to grow faster than any other major European economy this year and next.

FUNDS

The Insurance Game

Hypothetical projections of how an insured portfolio would fare 12 months in two market scenarios. The uninsured portfolio tracks the S & P 500.



An Emerging Breed of Funds Uses Computerized Strategies

(Continued from Page 9)

stock for futures when the futures are underpriced relative to the index, effectively winning a quick profit while continuing to participate in the index's performance. Conversely, the fund may jump back into stock when the futures are overpriced compared to the index.

Arbitrage, however, could complicate Kidder's insurance effort, for program traders say that insurers are sometimes selling futures automatically at the same time arbitrageurs are buying the contracts.

The Kidder filing does not specify how extensively the fund will use arbitrage, and Kidder officials refused to comment at all on the fund until the SEC takes action. But several program traders suggested that the fund, called the MarketGuard Appreciation Fund, may concentrate on the performance of its insured portfolio, becoming an arbitrageur only under certain circumstances.

"That fund could have some pizzazz," said Jeffrey Miller, a principal in Miller Tabak and Hirsch,

which helped pioneer index arbitrage. "If you worked hard enough at it, you could make up some of the costs of insurance," he suggests.

Not everyone, however, is optimistic about the future of "insured" funds. In fact, Wall Street has raised serious questions about portfolio insurance. While insured portfolios are believed to total \$40 billion, that is just a fraction of all institutional holdings.

Critics point out that hedging with futures involves steep transaction costs. This can lead to mounting expenses in a flat market since a fund manager has no chance of making money on a contract unless its price varies. Moreover, hedging costs can also eat up profits during rallies. At the same time, there are no guarantees that insurers will execute their hedging properly in declining markets. "I think it's very risky," says William Morris, a pension consultant at Mercer-Meldinger Inc.

David Testa, president of T. Rowe Price Associates' Growth Stock fund, says he is unconvinced mutual funds can devise adequate

Why the Funds Lagged the Market in '86

The strength of blue chips made it hard for managers to outperform the major indexes.

By Vartan G. Vartan

INVESTORS STORMED into U.S. mutual funds last year, but they probably would have been better off investing in blue-chip stocks. Despite a healthy return, the average performance of equity funds in the United States lagged the Dow Jones Industrial average and the Standard & Poor's index of 500 leading stocks.

The roster of 568 general equity funds produced an average total return of 13.39 percent. By contrast, the S&P 500 index had a total return, including dividends, of 18.71 percent, while the total return of the Dow average was 27.25 percent. The investment concentration during 1986 on large-capitalization blue-chips is cited as the major reason why the market indicators had a better showing.

Thanks in part to the declining dollar, international funds ranked as the best performing sector of the mutual fund industry in 1986 with a total return averaging 53.25 percent. The internationals ranked second behind the health care funds in 1985.

Gold and precious metal funds staged a comeback. As a group, their performance ranked second only to the international funds and showed an average total return of 36.07 percent.

Results for the fourth quarter, however, showed a change in leadership. "Capital appreciation funds and technology funds — relatively poor performers for the year as a whole — ranked among the best gainers," according to Michael Lipper, president of Lipper Analytical Services, which monitors the fund industry.

For the final quarter alone, top honors went to two small funds. First was the \$4.3-million Deicap Fund I with a return of 17.36 percent. It was followed by 44 Wall

How Mutual Funds Have Performed

Funds showing largest percentage changes in net asset value in 1986 from 1985, and in fourth quarter from previous quarter.*

Annual Changes	
Gainners	Losers
New England Zenith Capital Growth +95.21%	88 Fund -30.54%
Merrill Lynch Pacific +78.05	American Heritage -26.05
Namura Pacific Basin +74.46	Fidelity Select Electronics -23.85
Newport Far East +73.26	Bowser Growth -22.89
Financial Portfolio Pacific +72.49	Strategic Capital Gains -21.39
GT Pacific Growth +70.04	Dividend/Growth Laser, Advanced Technology -21.16
Fidelity Overseas +69.25	Steadman American industry -19.72
BBK International +61.97	44 Wall Street -16.26
T. Rowe Price International +61.29	Fidelity Select Energy Services -15.75
GT Japan Growth +60.62	First Investors Natural Resources -14.85
Quarterly Changes	
Gainners	Losers
Deicap Fund I +17.36%	Strategic Silver -10.43%
44 Wall Street Equity +17.11	Bowser Growth -9.90
First Investors U.S. Government Plus I +14.86	Rochester Convertible -8.83
Financial Portfolio Technology +13.94	Sherman Dean Fund -8.57
USAA Gold +12.89	Schild Aggressive Growth -7.82
Trusts Commingled International +12.84	American Capital Life Stock -7.72
Benham Target 2010 +11.43	Rochester Growth -6.95
Fidelity Select Computer +11.00	Wealth Monitors -6.94
Gintel Erisa +10.83	Fidelity Select Life Insurance -6.77
IDS Precious Metals +10.41	Strategic Capital Gains -6.44

*Dividends, capital gains reinvested. Source: Lipper Analytical Services Inc.

that rose sevenfold between May and December.

"We went in and out of Home Shopping several times during the year," Mr. Heebner says. His fund currently has about 25 percent of its portfolio in technology stocks that are focused on the microcomputer business or small computers, including Apple Computer, Lotus Development, Digital Equipment, Telex and Seagate Technology.

MUTUAL FUNDS concentrating their investments in the Pacific Basin showed the best records among the internationals. The best performer in that group was the \$420 million Merrill Lynch Pacific Fund, which benefited from the sharp rise of Japanese stocks.

"Slightly less than 75 percent of our assets are currently invested in Japan," says Stephen I. Silverman, the portfolio manager. "We continue to favor property-casualty stocks, which have very conservative accounting practices that, in effect, hide their earnings dramatically." The fund's largest single holding is an Australian stock, AFP Investment Corp., a holding company that constitutes 7 percent of the portfolio.

Fidelity Overseas Fund, the industry's top performer in 1985, when it gained 78.68 percent, took seventh place last year with a return of 69.25 percent.

The \$6.5-billion Fidelity Magellan Fund, which is managed by Peter Lynch, shows the best performance for the 5, 10 and 15 years ended in 1986. Over 15 years, for example, its total return is 1,721.83 percent. Magellan rose 23.74 percent last year.

Natural resource and technology funds, along with small company growth funds, ranked among the laggards in 1986.

The two poorest performers — 88 Fund and American Heritage Fund — were among the smallest funds covered in the survey. The 88 Fund, based in Columbus, Ohio, invests only in Ohio-based companies. For the year, it showed a decline of 30.54 percent. The current market value of its portfolio is \$145,000.

American Heritage, based in New York City, has \$600,000 in net assets. It dropped 26.05 percent in value last year. At both organizations, officials said that, in large part, the poor performance was a function of the fund's size. For a small fund, they noted, the legal, accounting and other expenses can offset any performance gains. □

© The New York Times



Bidding at the Chicago Mercantile Exchange on S&P 500 contracts. Funds with portfolio insurance make heavy use of index futures contracts.

IF SUCH WORRIES persist, regulators might eventually clamp down on program trading.

For now, however, program traders seem free to ply their trade. And, while the still-nascent strategy of insurance has yet to face the test of a prolonged bear market, practitioners insist the results have been pleasing so far. From Aug. 22 through Sept. 12, for example, when the S&P 500 plunged 7.8 percent, the RepublicBank-Skye fund reported a drop of about three-quarters of one percent.

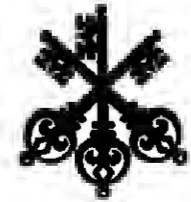
With stocks like that circulating, and with Wall Street's maturing bull market prompting jitters among investors, more insurance funds cannot be far behind. □



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VE COVERAGE OF CAN STOCKS

READERS HERALDS

THE TRADER

Short-Selling: OTC Data Debunks Some Myths

The publishing of monthly figures sheds some new light on this important market.

By Karen Polk

INVESTORS IN U.S. over-the-counter stocks have a new tool to help them pick their way through the more than 4,000 issues that trade through Nasdaq...

Sizing Up Short Sales

- Experts say short interest is generally not meaningful as a sentiment indicator unless it is equivalent to at least 10 to 20 percent of a company's total outstanding shares.

exchanges. And when there was a significant short interest to a particular stock, it was often for all the right reasons...

The big surprise that the new data has shown is that everybody was expecting the OTC short sale figures to be so huge because there's so much shorting done in this marketplace...

Many short sellers feel vindicated by the news and by what they have observed in the two listings that have been published to date...

Moreover, many observers believe publishing short interest is a vital step in the development of the Nasdaq market.

Each time the NASD has [made disclosures] there's been a flood of business coming in because there's more information for investors to make their decisions...

Understanding this new mechanism and interpreting the information may take practice, however. The monthly published charts list the number of short positions in a stock, compare it to the previous month...

The reason is that short figures do not always reflect the opinion that investors may have about a particular stock. If a company is also trading convertibles, warrants or options...

The NASD indicates potential arbitrage candidates on its list, but the association limits its search for arbitrage opportunities to instruments listed on

Nasdaq and the stock exchanges. Many companies in the OTC market, however, trade instruments equivalent to their common stocks through the daily "pink sheets" that are published by the National Quotation Bureau Inc. in Jersey City, New Jersey.

Of the 10 companies with the largest short interest listed in the December report, only four were flagged for arbitrageable instruments. But two others - Electromedics Inc., which manufactures electrical machinery...

In both instances, traders suspect that arbitrage activity contributed to the short position. In the case of Electromedics, the short interest was equivalent to 3.7 percent of its 42.5 million outstanding shares...

Moreover, a sizable short position might actually reflect a battle between supporters and short-sellers of a stock, which often creates wild price fluctuations. "The two groups are both acting on what they believe to be a correct analysis of the company. They are just differences of opinion," says Mr. Finn.

With the reporting still in its early stages, problems have already arisen. In the first listing, which appeared in late November, two stocks were reported to have short interest far above and below the actual figures. An investigation by the NASD uncovered a glitch in the software program that firms use to calculate the short positions, according to NASD officials...

But despite a troubled start, some experts are already drawing favorable conclusions based on the short interest data. The December listings of short interest, they note, showed a 3 percent decline over the revised November figures, compared to only a fractional decline in short interest on the Big Board. At the same time, prices were up on the listed exchanges while the NASDAQ composite index fell 2 percent - a sign of possible bargains for the new year.

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STRATEGY

Choosing the Right Dollar

Seeking haven in the one from Canada. INVESTORS who have been overwhelmed by the turbulence that has surrounded European currencies and the dollar this month might want to take a second look at the Canadian dollar.

Market Scoreboard

Stocks on the New York, London and Tokyo exchanges that showed the largest percentage gains and losses in December

Table with columns for GAINERS and LOSERS, listing stock names, percent gain/loss, and prices for New York, American, and London Stock Exchanges.

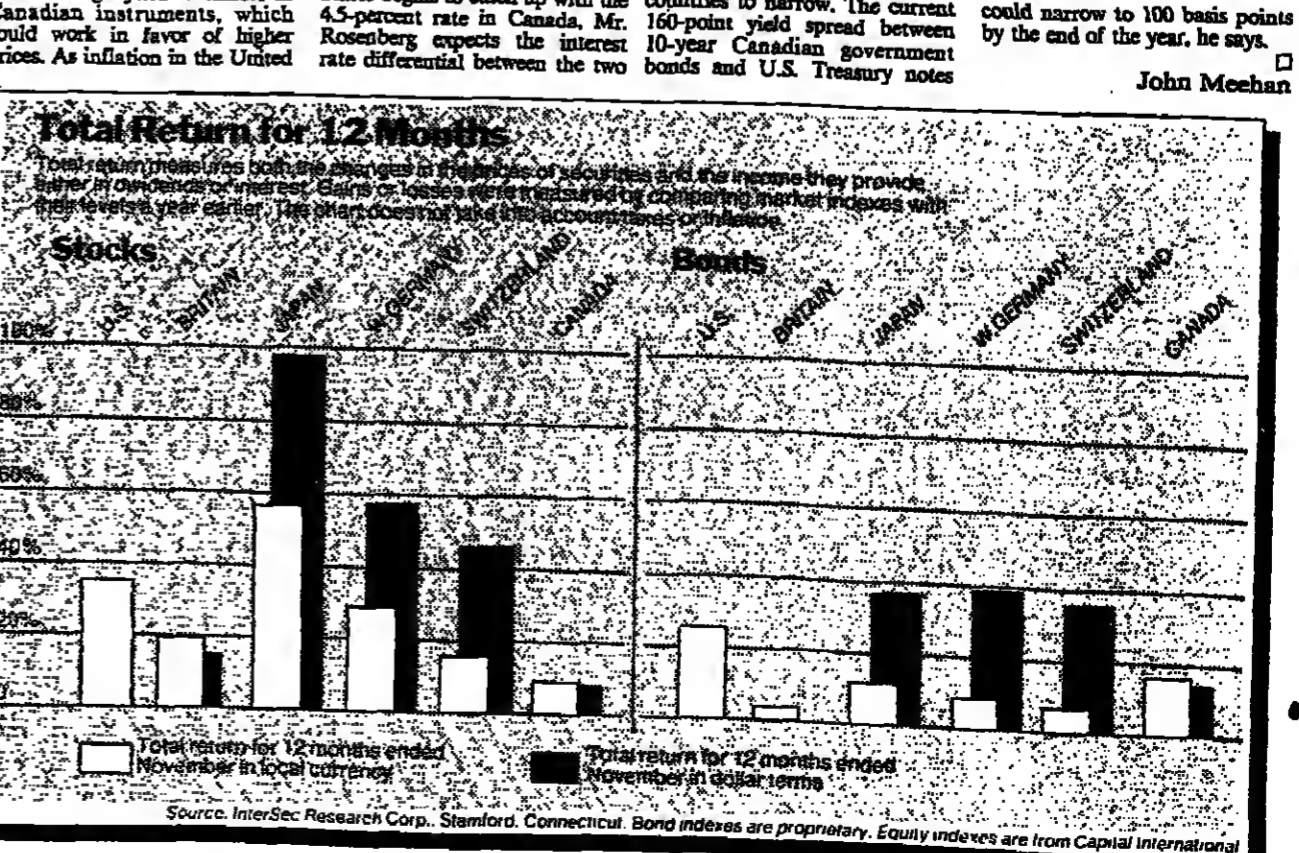
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EUROBONDS

Underwriters Avoid Risks In Dollar Market Turmoil

By CARL GEWIRTZ International Herald Tribune

PARIS — The continuing turmoil in foreign-exchange markets is having a quite beneficial effect on the dollar sector of the international bond market.

The dollar's free-fall in the exchange markets has changed this. Investors are still willing to buy dollar securities, anticipating that U.S. interest rates will decline this year and bond prices will rise.

The dollar's free-fall in the exchange markets has changed this. Investors are still willing to buy dollar securities, anticipating that U.S. interest rates will decline this year and bond prices will rise.

At the same time, lead managers are in no mood to launch mispriced issues. Experience has shown that managers' attempts to stabilize prices during the syndication period often result in their owning most, if not all, of the issue.

The new approach in the Eurobond market was best demonstrated last week by the issue Belgium launched, a \$200 million bond that within a few hours was increased to \$300 million.

Up to now, arranging such swaps has been a major profit center for the managers of bond issues. The manager typically would arrange the swap at a big profit for itself and then syndicate the fixed-coupon bond issue at terms that bear no relation to what the going rate is in the public market.

Of late, however, to protect their own reputation as well as that of the borrower, lead managers have had to repurchase huge amounts of the mispriced bond issues in efforts to stabilize sinking prices.

County NatWest Capital Markets, lead manager of the Belgium issue, has reversed this procedure. The swap, it is widely believed, was arranged at a loss, the bond was overpriced and the profit made on selling the bond should more than cover the cost of the swap.

Competitors estimate that County lost more than \$2 million providing the swap. That may be more theoretical than real. The bank may have had a counterparty willing to pay the more than normal cost for arranging a swap, or the bank may have written the swap itself hoping to trade it at a profit later.

In any event, the terms on Belgium's 10-year bonds included a coupon of 5 percent, an offering price of 101 1/2 and underwriting commissions of 2 percent — a total cost of funds of 85 basis points over the yield on comparable dated Treasury bonds.

Also worth noting is that these are Belgium's first bearer bonds. Up to now its Eurodollar offerings have been in the form of unlisted registered securities to keep the tax-free paper out of the hands of Belgian tax evaders.

The new issue, to be listed in Luxembourg, was sold in large denominations of \$100,000, reflecting the government's concern to discourage tax evaders from buying its paper.

Listed bearer bonds, the standard feature of Eurobonds, should enhance the attraction of the paper, since

See EUROBONDS, Page 15

Last Week's Markets

All figures are as of close of trading Friday

Table with columns for Stock Indices, Money Rates, and other market data.

Currency Rates

Table with columns for Currency Rates, Cross Rates, and other financial data.

Manila Hardens Debt Line

Seeks Lowest Interest Ever

MANILA — In a hardening stand on debt talks, the Philippines has demanded easier repayment terms than those ever offered any major debtor nation.

Finance Minister Jaime Ongpin said Saturday that Manila would not resume talks on restructuring \$3.6 billion of its \$28 billion foreign debt until an offer "better than Mexico" was made.

Bankers consider the Mexican package the most lenient a major debtor nation has received from creditor banks: 20-year repayment with a 7-year grace period at interest of 12 1/2 percent over the London interbank offered rate.

Mr. Ongpin not only confirmed that the Philippines was seeking a rate of 8 percent over Libor, but he also said that rate "looks like it is not even good enough. That is why we originally entered the talks with 3 percent."

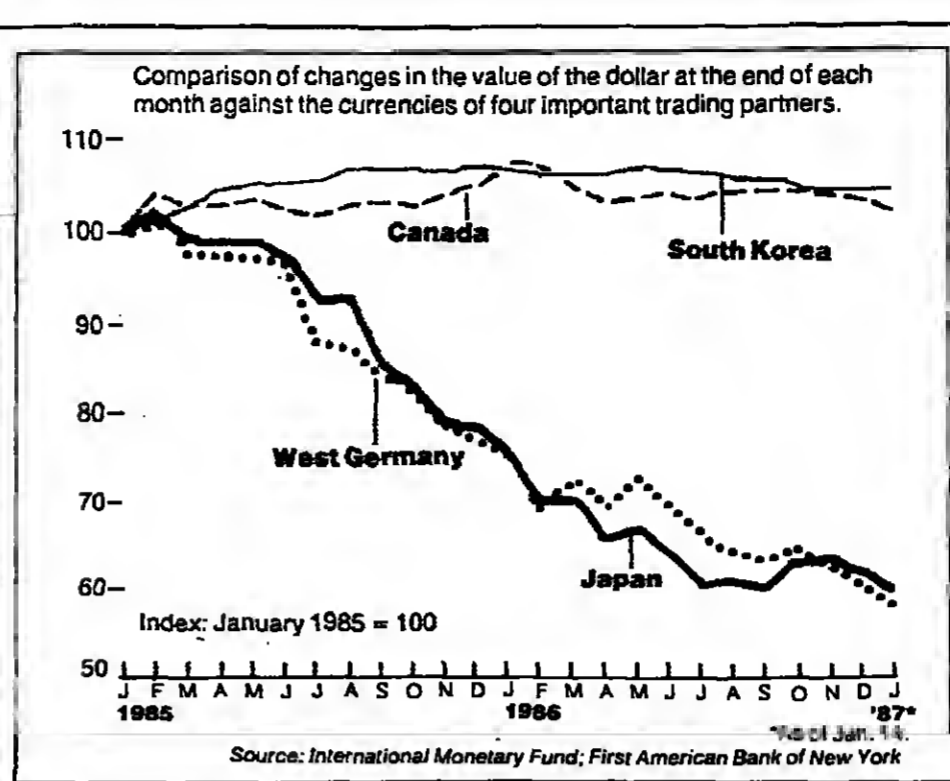
Furthermore, he said, referring to the time it took to arrive at the Mexican program: "We do not want to be waltzed around for 10 months like the Mexicans were."

The debt talks collapsed in November after a bank, identified by sources as Citibank, refused to endorse \$3.5 billion in development assistance, as well as funding for a land reform program that is expected to cost about \$500 million over the next two years.

Mr. Ongpin also said the Philippines was facing a cash shortage and would ask aid donors to endorse \$3.5 billion in development assistance, as well as funding for a land reform program that is expected to cost about \$500 million over the next two years.

Mr. Ongpin, along with the central bank governor, Jose Fernandez, and Economic Planning Minister Solita Monsod, left Sunday for Paris for meetings of a consultative group of Manila's bilateral and multilateral creditors and of the 15 Western aid donors who make up the Paris Club.

See CONFIDENCE, Page 15



Europe's Confidence in U.S. Sags

Trade, Budget Gaps Combine With Fears About Fed

LONDON — The European financial community is fast losing confidence in both the U.S. dollar and leadership within the Reagan administration, according to a number of financial analysts here.

Since the beginning of this month, and especially last week, this loss of confidence has helped send the dollar tumbling on foreign-exchange markets.

Two years ago, when the dollar was soaring, almost no one in Europe was willing to bet against it. Analysts acknowledged at the time that the growing U.S. trade deficit and a somewhat higher rate of inflation in the United States than in West Germany and Japan pointed to a decline in the dollar.

But confidence in the economic management of President Ronald Reagan and the Federal Reserve chairman, Paul A. Volcker, was just too strong.

Even after the dollar began to decline, that confidence produced a relatively smooth, steady fall rather than the precipitous drop that had been predicted by many currency experts.

The market's confidence has now been lost, buried by bad news. Among the most important developments, analysts say, have been:

• The failure of the dollar's decline in 1985 and 1986 to make a dent in the U.S. trade deficit, the latest figure, for November, was a record, more than \$19.2 billion.

• The continued large U.S. budget deficit, one-fourth to one-third of which was financed last year by foreign purchases of government debt.

• The unexpected weakness of the Reagan presidency after the disclosures about weapons sales to Iran.

• A growing fear that Mr. Reagan will not reappoint Mr. Volcker, nor choose a strong, experienced leader to replace him, when the Fed chairman's term expires in August.

• Evidence that the governments of West Germany and Japan remain unwilling to make economic policy changes that would support the dollar by stimulating domestic demand — and thus the market for U.S. exports — and reducing interest-rate differentials between their countries and the United States.

"I have a horrible feeling there is a considerable downside to the dollar," said Richard Reid, economist at Phillips & Drew, a large brokerage firm.

Mr. Reid said he feared that Reagan administration officials, and their counterparts in West Germany and Japan, did not fully appreciate the dangers involved.

He and other analysts said they believed that the

See CONFIDENCE, Page 15

Murdoch, Politicians Live and Let Live

By Jane Perlez New York Times Service

SYDNEY — The transformation of Rupert Murdoch's Australian newspaper holdings into a national chain with two-thirds of the country's circulation has raised concerns here about the concentration of so many newspapers in the control of one individual.

But the \$1.6 billion takeover agreement that would give Mr. Murdoch a national chain has shown a surprisingly symbiotic relationship between the Labor government of Prime Minister Bob Hawke and the conservative publisher.

The Labor Party declined to interfere with the acquisition by Mr. Murdoch's News Corp. of the 142 newspapers, radio and television stations owned by Herald & Weekly Times Ltd., Australia's biggest media group.

A takeover battle for Herald & Weekly ended last week when businessman Robert Holmes & Court withdrew from the bidding.

Mr. Murdoch has agreed to sell some of the properties to meet regulatory requirements, but he would nonetheless be left with 65.8 percent of the national readership.

When the acquisition was announced, Mr. Hawke said, "I have always judged that it is appropriate that the market should decide this matter."

He vetoed a request by his foreign minister, Bill Hayden, for a public inquiry. Mr. Murdoch conducted an editorial campaign against Mr. Hayden during a tussle for the Labor Party leadership.

The former prime minister, Malcolm Fraser, denounced both the Hawke government and the leaders of his own conservative Liberal Party, which also did not oppose the Murdoch acquisition.

"Nobody in the world would say that one corporation owning 75 percent of the total metropolitan daily publications is good for Australia or good for democracy," Mr. Fraser said.

Mr. Fraser, a childhood friend of Mr. Murdoch, said the politicians were "too scared" to criticize the publisher.

The newspapers already owned by Mr. Murdoch range from The Australian, considered to be his national flagship, to the Daily Mirror, a Sydney tabloid specializing in sensational crime stories and pictures of stimpily clad women.



Rupert Murdoch

ed his Australian background and then got American citizenship to suit his own ends, said James Hall, associate editor of The Bulletin, a national magazine. "He then comes back here to grab more."

Mr. Murdoch's ownership of two television stations here is under threat because, under Australian law, a foreign citizen cannot control television stations.

The Murdoch company has undergone extensive restructuring that the federal court is examining to see whether Mr. Murdoch has been sufficiently isolated from control of the stations. A decision from the federal court is expected this week.

"It doesn't sit well that he flaunt-

West Still Skeptical on Joint Ventures With Soviet

By Bill Keller New York Times Service

MOSCOW — Ten years ago this month, Bendix Corp. and the Soviet Union announced that they had formed a joint venture to make spark plugs at a factory in the Soviet Union.

But after much talk about a new wave of Soviet-American ventures, the agreement collapsed because of impregnable Soviet bureaucracy and the Russians' reluctance to part with any of the profits, recalls William M. Agee, former Bendix chief executive.

"They would learn all our technology, and we would not even be profitable middlemen," he said.

The Bendix story is recounted frequently by Western businessmen here as a cautionary tale, now that the Soviet Union has begun a whirlwind courtship of Western partners aimed at creating the first genuine joint ventures on Soviet soil.

Despite the announcement of a new Soviet law allowing foreigners to hold equity for the first time in Soviet industry, despite high-level promises of managerial independence and tax breaks, and despite the signing of three preliminary joint venture agreements with U.S. companies, many Westerners remain deeply skeptical that the Sovi-

Fermenta Chief Resigns After Admitting Lie

STOCKHOLM — Sune Dahlberg, managing director of troubled Swedish biotechnology group Fermenta AB, has resigned after admitting lying about a discredited company document.

Early Saturday, Mr. Dahlberg said at a news conference that his signature on a Fermenta eight-month interim report, now discredited by auditors, had been forged.

But after two witnesses told Swedish newspapers they had seen him sign a blank piece of paper he knew was to be attached to the report, he withdrew the claim.

He said in a statement to reporters that he had lied.

In December, auditors cut predicted earnings in the 1986 interim report from 700 million kronor (\$106.14 million) in 40 million. They said they could not guarantee the authenticity of many company transactions.

Last Thursday, the board of the Stockholm Stock Exchange announced that Fermenta would be delisted, effective Monday.

The board accused Fermenta of providing misleading information to the stock exchange and financial markets.

The board's chairman, Bengt Ryden, said the company's "unparalleled conduct" meant expulsion was the only choice.

Police prosecutors, the stock exchange and the bank inspection board are carrying out separate inquiries into the company after the auditors' disclosures.

Inquiries are also under way into the business affairs of the company's founder, Refaat el-Sayed, who resigned early in November.

Mr. Sayed, a naturalized Swede born in Egypt, conceded a 46 percent share in Fermenta to the investment firm Industrivärden AB, which took up the stake as security for loans Mr. Sayed failed to repay.

Dag Nybyst, Sweden's biggest newspaper, said Saturday that if Mr. Dahlberg had not resigned, the board would have dismissed him.

The new board, appointed last month to represent the new ownership, has promised to restore the company's credibility.

But industrial sources said the continuing scandals would be bound to affect trading of Fermenta's shares on the bourse's unofficial market when it opens on Monday.

They said the unprecedented series of events made it impossible to predict a price.

Trading of Fermenta shares was suspended eight times last year. During the year the share price fell from above 300 kronor to 105.

See STEEL, Page 17

Reagan's Deregulator To Quit as Head of FCC

By Reginald Stuart New York Times Service

WASHINGTON — Mark S. Fowler, who has championed deregulation of U.S. telecommunications industries for the Reagan administration, has announced his resignation as chairman of the Federal Communications Commission.

"It seems like a natural break point," said Mr. Fowler, 45, who has headed the commission since May 1981, longer than any of his predecessors.

Mr. Fowler, whose first term as chairman expired last June, submitted his letter of resignation to President Ronald Reagan on Friday. He was expected to be nominated by Mr. Reagan this month but faced an uphill battle in the Senate Commerce Committee.

His leadership of the commission has been marked by confrontations with Senate Republicans and Democrats over his deregulation policies. Lawmakers have criticized his program to restructure telephone rates, which introduced monthly access charges for residential and small business customers.

His handling of mergers and acquisitions in the broadcast industry was sharply criticized as too lenient. And his attacks on FCC policies aimed at promoting ownership of broadcast properties by women and other minorities drew strong opposition.

Mr. Fowler also said he would not become involved in recommending a successor. Dennis Patrick, a commissioner who came to the agency from the White House staff, is considered a leading contender.

BANQUE SUDAMERIS U.S. \$30,000,000 Floating Rate Notes due 1987. For the six month period 15th January, 1987 to 15th July, 1987. The Notes will bear an interest rate of 6 1/2% per annum. Interest payable on 15th July, 1987.

Bankers Trust Company, London Agent Bank

Vertical text on the left edge of the page, including "Tugging A Trio Loose End" and "1987: Philippines" and other fragments.

New International Bond Issues

Compiled by Laurence Devilettes

Issuer	Amount (millions)	Maturity	Coupons	Price	End week	Terms
FLOATING RATE NOTES						
OMO Eurotrust 18	\$100	2017	1/4	100	—	Over 2-month Libor.
Springong U.S.A.	\$25	1992	1/4	100	99.45	Over 6-month Libor, Redeemable at par in 1990 and callable at par in 1989. Fees 0.65%. Denominations \$500,000.
FIXED-COUPON						
Belgium	\$300	1997	8	101 1/4	100.35	Noncallable. Fees 1.75%. Denominations \$100,000.
Nippon Telegraph & Telephone	\$150	1994	7 1/2	100 1/4	99.45	Over 6-month Libor. Fees 1.5%.
Spain	\$200	1994	7 1/2	101	99.25	Noncallable. Fees 1.85%.
Sweden	\$250	1992	7	101	99.50	Noncallable. Fees 1.85%.
Wharfedale Acceptance	\$100	1991	7 1/2	101 1/4	—	Noncallable. Fees 1.85%.
Commerzbank Overseas Finance	DM 400	1992	5 1/2	100	98.75	Noncallable. Fees not disclosed.
Dresdner Finance	DM 500	1992	4 1/2	97 1/4	95.25	Noncallable. Fees 2%.
European Investment Bank	DM 300	1997	6	100	99.25	Callable at 100% in 1994. Fees 1.6%.
Toronto Dominion Bank	DM 100	1994	5 1/2	100	—	Noncallable private placement. Fees 1.6%.
World Bank	£100	1999	10 1/2	100 1/4	99.00	Noncallable. Fees 2%.
Bank Mees & Hope	ECU 50	1992	7 1/2	100 1/4	98.00	Noncallable. Fees 1.6%.
Classe Centrale de Coopération Economique	ECU 73	1992	7 1/2	101 1/4	99.50	Noncallable. Fees 1.5%.
Eurofina	ECU 150	1994	7 1/2	101 1/4	99.88	Noncallable. Fees 1.5%.
Queensland Government Development Authority	ECU 75	1992	7 1/2	101 1/4	99.38	Noncallable. Fees 1.6%.
Santorno Finance	ECU 100	1994	7 1/2	101 1/4	99.25	Noncallable. Fees 1.6%. Denominations 12,500 ecus.
CIBC Mortgage	CS 100	1992	9	100 1/4	99.13	Noncallable. Fees 1.6%.
European Investment Bank	CS 138	1996	9	101 1/4	99.98	Noncallable. Fees 2%.
Ford Credit Canada	CS 75	1992	9	101 1/4	99.50	Noncallable. Fees 1.8%.
Scotiabank Province	CS 150	1990	8 1/2	100 1/4	99.75	Noncallable. Fees 1.6%.
Sears Canada	CS 100	1997	9 1/4	101 1/4	98.63	Noncallable. Fees 2%.
Winnipeg City	CS 60	1992	9	101 1/4	99.68	Noncallable. Fees 1.6%.
British Petroleum Capital	Aus 100	1992	14 1/4	101 1/4	99.50	Noncallable. Fees 2%.
Indosuez Australia	Aus 40	1990	14 1/4	101 1/4	98.88	Noncallable. Fees 1.5%.
Nordic Finance (Curacao)	Aus 50	1992	14 1/4	101 1/4	99.40	Noncallable. Fees 2%.
Toronto Dominion Bank	Aus 40	1990	14 1/4	101 1/4	99.10	Noncallable. Fees 1.5%.
Den Norske Creditbank Int'l	N 25,000	1992	5 1/2	101 1/4	99.38	Noncallable. Fees 1.6%.
Postipankki	F 5,000	1992	7 1/2	105	—	Noncallable. Redeemable at maturity in U.S. dollars at a fixed exchange rate of 173.00 yen per dollar. Fees 1.6%.
EQUITY-LINKED						
Esci Company	\$100	1992	3 1/2	100	107.25	Noncallable. Each \$50,000 note with one warrant exercisable into company's shares of \$2.96 per share and on 154.45 yen per dollar. Fees 2.6%.
Izumiya Company	\$60	1992	3 1/2	100	99.00	Noncallable. Each \$50,000 note with one warrant exercisable into company's shares of \$2.96 per share and on 157.60 yen per dollar. Fees 2.6%.
Toshiba Engineering & Construction	\$50	1992	open	100	100.00	Coupon indicated at 3.96%. Noncallable. Each \$50,000 note with one warrant exercisable into company's shares of \$2.96 per share and on 154.45 yen per dollar. Fees 2.6%.
Julius Baer Bank & Trust	DM 150	1994	2	100	112.00	Each 10,000 DM convertible into 9 bearer participation certificates of Baer Holding A.G. Fees 2.6%.
Burton Group	£110	2001	4 1/4	100	104.50	Redeemable at 130% in 1992 to yield 10.01%. Callable at 102 in 1992. Convertible at 315 pence a share, a 9% premium. Fees 2.6%.
WARRANTS						
Den Norske Creditbank	0.10	1990	—	\$16	\$19	Warrants exercisable at par into a 7% noncallable bond due 1994.

Bond Prices Up After Rise On Treasury Futures Mart

By H.J. Maidenberg
New York Times Service

NEW YORK — Prices of government bonds posted their best advance of the week Friday after a strong closing rally in the Treasury bond futures market.

In late trading, the offered price of the bellwether long bond, the 7.5 percent issue due in 2016, was up 1/32, at 102 3/32, to yield 7.33 percent, compared with 7.28 percent a week earlier.

U.S. CREDIT MARKETS

Dealers said that, aside from the sudden surge in bond futures prices, there were no significant developments to sway fixed-income debt either way. Neither the firming of the dollar nor Federal Reserve reports showing increases in industrial output and operating capacity had any effect on trading.

The discount rate on Treasury bills weakened, with the 90-day bills off four basis points to 5.36 percent, the six-month bills off two basis points to 5.39 percent and the new one-year bill down two basis points to 5.42 percent.

Before the bond futures rally, which occurred in the final half-hour before the Chicago market closed, prices had been slightly higher on the day. Dealers said most activity at the time consisted of squaring accounts before the three-day weekend.

The cash government securities market is closed Monday for the Martin Luther King birthday holiday, and the Treasury's regular weekly auction of three- and six-month bills will be Tuesday.

"Because the Treasury cash bond market will be closed Monday, some traders seeking to hedge their short positions over the weekend did so in the futures market," said Frederick T. Lerner, senior financial futures analyst at Prudential-Bache Securities in Chicago.

"At the same time, futures traders who were short at the close hedged their positions as usual in the cash market, which is open much later."

As a result, late dealings in the secondary market found the offered price of the 6 1/2 percent notes due in 1988 up 2/32, at 100 6/32, for a yield of 6.14 percent.

The Treasury plans to auction \$10.25 billion of new two-year notes Wednesday. The notes traded Friday on a when-issued basis at a price to yield 6.16 percent.

U.S. Consumer Rates

Product/Service	Jan. 15, 1987
Prime Rate	5.75%
Bank Rate	5.00%
30-Day T-Bill	5.36%
6-Month T-Bill	5.39%
1-Year T-Bill	5.42%
2-Year T-Bill	5.45%
3-Year T-Bill	5.48%
5-Year T-Bill	5.51%
10-Year T-Bill	7.33%
30-Year T-Bill	7.33%

EDF Renegotiation May Show Market's Direction

By Carl Gewirtz
International Herald Tribune

PARIS — With banking supervisors getting together on banks' off-balance-sheet lending commitments and banks themselves wary about increasing such business, Electricite de France decided last week to renegotiate the terms on an existing backup facility rather than try to arrange a new \$1 billion line of credit.

The French utility established the original 10-year revolving credit in 1984, paying an annual facility fee of 0.1 percent, or 10 basis points. In addition, EDF was required always to have in use at least 16 percent of the credit, on which it was paying 15 basis points over the London interbank offered rate.

In today's market, these terms look outrageously generous. French government-owned companies late last year were paying facilities fees of 4 basis points for seven-year commitments with no obligation ever to draw the loan.

World Bank Plans to Curtail Swaps

PARIS — The World Bank, regarded as one of the biggest participants in the international swap market, expects to curtail its swap activity in the first six months of its fiscal year ended in December.

The bank's swap activity, converting fixed-rate debt into floating rates or moving from high-cost to low-cost currency, is aimed at achieving the lowest possible cost of borrowing so as to be able to change the lowest possible rate on its own loans to developing countries. The rate is currently 7.92 percent.

The bank, owned by 151 governments, makes loans of more than \$16 billion a year to poorer countries.

At the same time, the bank increased through swaps its debt denominated in Swiss francs by \$664 million, in Deutsche marks by \$287 million, in yen by \$248 million and in guilders by \$76 million.

As a result, it was able to reduce the cost on the \$4.64 billion of money it borrowed during the first half from an average 6.6 percent to 5.77 percent.

However, if the dollar remains weak against these currencies, the cost of servicing the debt in a currency that is appreciating could more than wipe out the advantage of having paid a lower rate of interest that charged on dollar debt.

CONFIDENCE: Europe's Faith in U.S. Is Sagging

(Continued from first finance page)

United States was growing steadily more vulnerable economically and that foreign-exchange markets were reflecting this. Sooner or later, they said, the United States will have to take strong action to defend its currency. Measures could include raising interest rates or taxes sharply enough to threaten the four-year economic expansion.

The danger is not just for the United States. A recession there would reduce demand for goods from Europe, Japan and other countries, including many debt-laden Third World nations. Those countries might then slip into recession, too. A worldwide recession would put serious strains on financial institutions.

The last time a U.S. government had to defend the dollar was during the late 1970s, when there also was a significant lack of confidence in the currency and in the ability of the U.S. government to manage its economic and political problems. Among other steps, the United States mounted dollar-rescue packages that included sizable increases in interest rates.

Six or eight years ago, the chief economic problem in the United States, in the eyes of foreign investors and government officials, was an inability to control inflation. The chief worry now, the analysts say, is that the country is running by far the largest trade deficit in history.

A key question is whether investors in Europe and Japan, who last year put an estimated \$150 billion in U.S. government and private bonds and common stocks, to say nothing of investment in real estate and factories, will continue to pour so much money into the United States.

"The trend at the moment is to go in for Deutsche marks, guilders and yen," said a senior official at one of London's larger merchant banks. With the price of oil rising, sterling could attract new money, too, he added.

"We still have great confidence in Volcker and Baker to hold things together, but we wonder what will happen when they disappear?"

— A British banker

"We still have great confidence in Paul Volcker" and the U.S. Treasury secretary, James A. Baker 3d, "to hold things together," he said. "But we wonder what will happen when they disappear?"

An American colleague at his bank was less sanguine. "In the back of everyone's mind is protectionism," he said. "A real devaluation of the dollar could raise demands for new barriers for American-made products, whose prices are going down as the dollar falls. That could further sour relationships between the European Community and make economic policy coordination even more difficult.

The American banker said that particularly among Japanese investors the recognition of the possibility of a sudden collapse of the dollar has grown. A further loss of confidence in the dollar "could trigger an avalanche among Japanese investors" seeking to get out of dol-

INTERNATIONAL CREDIT

most bankers doubt that a jumbo loan could succeed in today's market and certainly not with pricing regarded as aggressive.

Thus, rather than risk running into banks' resistance to a \$1 billion commitment, EDF is asking banks to accept terms that are tighter than it paid up to now but a touch more generous than the smaller loans recently marketed.

The maturity will be unchanged, leaving seven and a half years to run. The annual facility fee will be halved to five basis points. However, EDF's total cost will come much closer to what new loans cost as the

front-end commissions to renegotiate

the loan are about half what it would have to pay for a new loan. Paying an annual fee of five basis points rather than four adds \$6 million to its total interest charge, but the lower one-time fees of 3 1/2 basis points instead of around 7 basis points represent a saving of about \$3 million.

Utilization fees will crumble to 2 1/2 basis points over Libor for drawing up to one-third of the amount. 5 basis points for up to half. 7 1/2 basis points for up to three-quarters and 10 basis points for more than that. The fees on the existing loan ranged from 15 to 35 basis points over Libor.

Bankers are eagerly awaiting the response as this will give a clear indication of where the market is heading. It is assumed that a number of smaller banks will use the opportunity to drop out of the syn-

dicant, which currently comprises about 70 banks. But it is also assumed that the Japanese banks, which underwrote only 20 percent of the original facility, will be prepared to increase their stake.

Tapping the Eurocommercial paper market without seeking specific new commitments for backup credit lines is ASEA Capital, the financing arm of Swedish manufacturer ASEA AB. It has appointed Eskilds Securities to market up to \$100 million of short-term paper.

Finland's government-owned chemical group, Kemira Oy, appointed Kansallis-Osake-Pankki, Morgan Stanley and Citicorp to market up to \$100 million of CP or the equivalent in European currency units.

British Printing & Communication Corp. named Hill Samuel to market up to £100 million of CP. In the syndicated loan market, Northeast Savings of the United States is seeking to raise \$100 million through a five-year collateralized credit. The loan will be backed by federal mortgage certificates and other mortgage-related assets, giving the debt a triple-A rating.

Lenders will be paid a margin of 1/2 point over Libor, a commitment fee of 15 basis points on any undrawn amounts and front-end fees ranging up to 25 basis points.

Treasury Bonds

Maturity	Close	Ask	Yield	Jan. 15, 1987
31.12.88	100 3/4	100 3/8	6.30	6.15
15.11.89	100 1/2	100 3/8	6.23	6.20
31.12.90	100 1/4	100 3/8	6.32	6.30
15.97.92	100 1/4	100 3/8	6.40	6.38
15.11.94	100 3/8	100 3/8	6.86	6.85
15.10.96	101 1/8	101 1/8	7.02	7.00
15.2.98	118 3/8	118 3/8	7.54	7.48
15.11.16	107 3/8	107 3/8	7.23	7.28

SELECTED U.S./B.T. QUOTATIONS

Company	Bid	Ask
Bitter Corp.	3 1/4	4
Chiron	25 1/2	25 3/4
GoodMark Foods	13 1/4	14
MAG Holdings	5	5 1/4
NAV-AIR	1 1/2	1 3/4
Spectrodyne	17 1/4	18 1/4

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Contact: Mr. A. Schibli P.E. of the New York Marriot Marquis from 19th to 23rd of January.

EUROBONDS: Underwriters Avoid Risk Amid Dollar Market Turmoil

(Continued from first finance page)

many institutional investors can only purchase securities listed on an exchange.

While spreads vs. Treasury yields in general have been rising, a margin of 85 basis points was considered generous. The best evidence of this was the fact that the paper ended Friday trading at a discount of 1.15 points for a margin of 76 basis points over the Treasury yield.

Although there was much praise, in principle, for County NatWest's construction of the issue, there was considerable displeasure expressed in the market about the actual operation — raising an issue that delivers a thorough airing.

For County NatWest to make enough money from marketing the bond to cover the estimated \$2 million loss on providing the swap, the bank kept 60 percent of the issue for its own clients. This meant that if County was able to sell all of its underwriting at the issue price and retain all of the 2 percent fees, it would have earned \$3.6 million. If it sold all of its underwriting at the closing discount of 1.15 points, the bank would have earned about \$1.8 million (having kept 0.15 percent of

the total commission as a pre-coupon).

Competitors argue that County was greedy in keeping so much of the issue, and thereby the commissions, for itself, leaving ridiculously small amounts for the two co-lead managers and the 26 co-managers. The co-managers reportedly were offered \$3.25 million each.

Credit Suisse First Boston found this "monopolization" by the lead manager unacceptable and withdrew from the underwriting group. Other banks, which did not withdraw, complained loudly, albeit in the usual fashion, requesting anonymity.

The fact of the matter is that in swap-related transactions, the lead manager always comes out better than others. If the profit (hidden from the market) is earned on the swap, the swap provider gets to keep all of the gain. But building the profit into the bond at least gives co-managers, and ultimately investors, some share in the benefit. Surely it makes sense for underwriters to "pay" for successful issues by allowing the lead manager and using the funds to buy dollar bonds. Profits are earned on the percentage-point difference between the lower cost of the bor-

rowed funds and the higher return on the bonds as well as the potential capital gains to be made if U.S. interest rates continue to decline.

Central banks were reported to be big buyers of Sweden's five-year bonds, the maximum maturity that official institutions are usually willing to accept.

By contrast, European investors were big buyers of equity-linked paper. Last week's hot issue was Julius Baer Bank & Trust's 150 million Deutsche mark, seven-year bonds convertible into the bank's stock at a premium of 7 percent (each 10,000 DM bond is convertible into nine bearer participation certificates). The bonds ended the week at a premium of 112 after hitting a high of 118.

The British clothing company Burton Group set a record low coupon, at 4 percent, on a record high amount of £110 million of bonds convertible into shares at a 9 percent premium. Investors were particularly attracted by the "put" option, giving them the right to request a premium cash redemption after five years for an effective yield of 10 percent if the stock failed to rise in price. The bonds ended the week at 104 1/2.

SOVIET: Despite Overtures, Western Companies Skeptical on Joint Ventures

(Continued from first finance page)

same business culture. Here, you're talking about a collision of ideologies."

On the Soviet side, however, the enthusiasm seems real enough. According to Westerners, hundreds of American, European and Japanese companies have been invited to submit proposals. Joint ventures have been touted in the official press and at international trade meetings as a way of raising the quality of Soviet products to "world quality," increasing exports and upgrading industrial technology.

According to a senior Soviet trade official, Yuri A. Kislenko, the Soviet Union will offer partners in these ventures several years of tax-free operations, independence from the centrally planned economy, and freedom to experiment with such Western management techniques as incentive pay scales.

Mr. Kislenko, who represents the Ministry of Foreign Trade on a high-level government committee that is working out the terms of joint ventures, concedes that many details remain to be worked out.

But he insists that under the Soviet leader, Mikhail S. Gorbachev, the trade bureaucracy has unprecedented flexibility to write experimental contracts with Western partners.

Two U.S. companies in addition to Monsanto have signed letters of intent to enter joint ventures. Occidental Petroleum has agreed to team up with Soviet partners to extract oil from already tapped oil fields in the Volga region and is also discussing a fertilizer venture.

SSMC Inc., formerly Singer Sewing Machine Co., has signed up to produce home and industrial sewing machines at a factory in Orsha, in the Republic of Byelorussia. Demand for the machines is likely to double, officials say, under a forthcoming law permitting individuals to set up small enterprises like home sewing.

Western and Soviet officials say these three agreements, and perhaps a few more, will be negotiated in detail over the next six months, and will test the waters for large-scale creation of joint ventures. Soviet officials say they are especially interested in chemicals, pulp and

paper, food processing, and almost anything involving high technology.

Under a new law, which the Soviet news service Tass said last Tuesday had taken effect on Jan. 1, foreigners can own up to 49 percent of the means of production, share in management of a predominantly Soviet work force and be entitled to repatriate profits.

Soviet officials have increasingly tended to talk about joint ventures as a way of increasing exports to third country markets, in order to generate hard currency. This gives many Western companies pause.

"What markets can the Soviet Union deliver that Western companies don't already reach?" asked a commercial officer. "Afghanistan? Vietnam? The real plum is the Soviet market, and it's not at all clear that will be open."

According to Western business sources who declined to be named, SSMC was originally told it could sell its Soviet-American sewing machines in the Soviet Union and take out its profits in hard currency. More recently, these sources said, Soviet officials have told the U.S.

company that the venture will have to generate its own hard currency by selling to markets outside the Soviet Union, where Singer is already the market leader.

SSMC's fears appeared to be confirmed last Tuesday when additional details of the new joint venture rules were published in the Soviet press. One rule provides that the hard currency profits of Western partners cannot exceed the amount of currency the joint ventures generate by selling outside the Soviet Union.

"This might restrict somewhat the number of Western firms striving to participate in the creation of a joint enterprise on the territory of the U.S.S.R.," Tass conceded.

Said one Western diplomat, "The people who are pushing this within the government have sold it as a vehicle to address the decline in hard currency. To the extent that it's what it is based on, it's going to fail."

Despite their misgivings, Westerners say some companies may be willing to take a marginally profitable plunge simply to get a foot in the door of a new market.

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INTERNATIONAL POSITIONS

You will find below a listing of job positions published last Thursday under the rubric International Positions.

TITLE	SALARY	EMPLOYER
SENIOR FINANCIAL ANALYST	Competitive	Abu Dhabi National Oil Co.
SENIOR ACCOUNTANT	Competitive	Abu Dhabi National Oil Co.
MATERIAL CONSULTANT/ADVISOR	Competitive	Abu Dhabi National Oil Co.
CHIEF EXECUTIVE OFFICER	Int'l Multi-Million \$ Direct Marketing Company.	

If you haven't seen last week's INTERNATIONAL POSITIONS rubric, please ask for a free copy: Max Ferrero, INTERNATIONAL HERALD TRIBUNE, 92521 Neuilly Cedex, France. Tel (1) 46.37.93.81. Telex: 613395

NASDAQ National Market

OTC Consolidated trading for week ended Friday, Jan. 16

Main table of NASDAQ National Market data, organized into columns A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z. Each column contains stock symbols, prices, and volume information.

Mutual Funds

Figures as of close of trading Friday, Jan. 16

NEW YORK (AP)—The following mutual funds, controlled by the National Association of Securities Dealers, Inc., are on the list of securities that have been sold in the Value Fund.

Value Fund: Involves value stocks, closed Friday.

Table of Mutual Funds data, listing various fund names, their performance metrics, and other relevant information.

(Continued on next page)

NASDAQ National Market

OTC Consolidated trading for week ended Friday

Table of NASDAQ National Market OTC Consolidated trading for week ended Friday, listing various stocks and their prices.

Table of international stock market data, including sections for YEN STRAIGHTS, EURO MARTS AT A GLANCE, and EUROBOOND YIELDS.

U.S., EC Meet in Geneva, Preparing for Trade Talks

WASHINGTON — U.S. and European Community negotiators are meeting in Geneva to discuss ways of settling a bitter dispute over \$400 million worth of lost U.S. corn and sorghum sales to Spain.

STEEL: Union, USX Reach Pact

(Continued from first finance page) It was not disclosed how long the contract would run. The tentative agreement was also reported to include some restrictions on hiring outside contractors to do mill work.

International Bond Prices

Table of International Bond Prices, listing various bonds and their yields.

EUROPEAN COMMUNITY U.S. to Replace Envoy With White House Aide

By Peter Maass International Herald Tribune BRUSSELS — In an unexpected reshuffling, the White House plans to replace its top envoy to the European Community.

Delors Prepares Capitals With Budget Proposal

Jacques Delors has begun his quest for a long-term accord to save the community from bankruptcy. The EC Commission president left Jan. 10 for Rome, the first stop of a tour of the 12 community capitals for special budget talks with government leaders.

Timdemans Cautious On Mideast Peace Bid

A wary EC is considering an attempt to help restart the stalled Middle East peace process. Belgium's foreign minister, Leo Timdemans, whose government just started its sixth-term EC presidency, announced Jan. 9 that a special meeting of community foreign ministers would be held to discuss the Middle East.

Wall Street Review

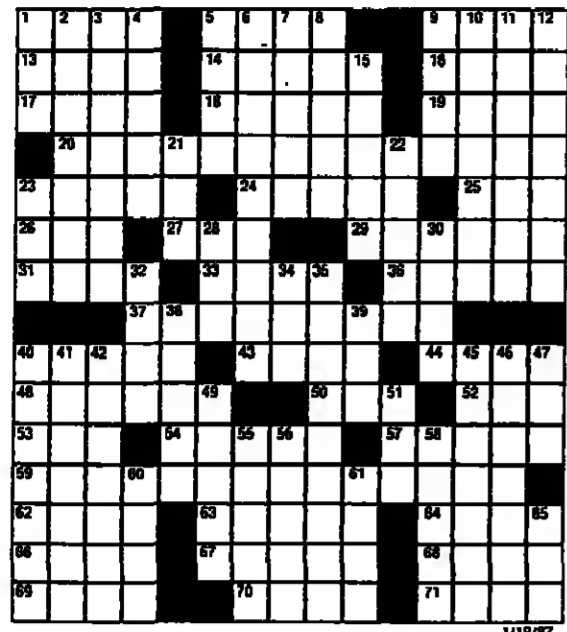
Table of Wall Street Review, including AMEX Most Actives, NYSE Most Actives, AMEX Dividends, NYSE Dividends, AMEX Sales, and NYSE Sales.

Euromarts At A Glance

Table of Eurobond Yields, listing various Eurobonds and their yields.

INTERNATIONAL CLASSIFIED (Continued from Back Page) ESCORTS & GUIDES REGENCY NY MAYFAIR CLUB CAPRICE-NEW YORK FIRST ENCONTRE ZURICH - NATHALE AMSTERDAM ZURICH ** GENEVA BEST GENEVA + DESIREE GENEVA ESCORT CHELSEA ESCORT SERVICE

Euromarts At A Glance (Continued) Includes sections for Eurobond Yields, Libor Rates, and various financial data.



ACROSS

1 Nile ophiophidians
9 Hitch
13 Thrush
14 Domesticated
16 Jacob's third son
17 Double negative
18 Former Broadway hit
19 Muscat site
20 "The Color Purple" star
23 Kind of signal
24 Dead duck
25 R.S.V.P. part
26 — Aviv
27 Genetic letters
29 An abrasive
31 Dandling site
33 Dirty bag's cousin
36 Map detail
37 Fuss
40 Juliet's beloved
44 Wading bird
45 One of the tenets
48 Driving reversals
50 Paddle's next of kin
52 Corp. boss
53 "— in the bag"

DOWN

1 Grain beard
2 Theatrical producers
3 Tiny opening
4 Frighten
5 Short distance
6 Aircraft crewman
7 Child's pal
8 Grow older
9 Rounded lump
10 Bane
11 Cupidity
12 Curi
15 Orchid tubers
21 "— the ramparts..."
22 Celtic priest

54 Voltair's religion
57 Jibe
58 Without value
62 Ningpo nanny
63 Ranch in "Paint"
64 Opposite of vive
66 Outcome of pol
67 "Little Murders" actor-director
68 Labels
69 Some are tight
70 Like-minded group
71 Seethe

23 N.Y.S.E. listing
26 Recent Prefix
28 L-Q connection
34 — tree (cornered)
35 Peculiar to a particular group
38 John Wayne western
39 Guido's high note
40 Fallen into decay
41 Low, cushioned seat
42 Hot-dog spread
45 Circus performer
46 Oozing
47 Kind of dance
49 Junipero —
50 Spanish missionary
51 Stadium cheer
55 Brain passages
56 Quiver
58 Bizarre bearers
60 "— Afraid of Virginia Woolf?"
61 Desire
65 Vienna-to-Graz dir.

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"MY TEACHER SAID I WAS 'UNKEMPT.' WILL YOU GET ME KEMPTED TOMORROW?"

JUMBLE. THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

SWYNE
TAVIL
TYRRAM
VEECAL

Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Print answer here:

Answers tomorrow

Friday's Jumbles: TONC CHASM PARLOR RADUIS
Answer: The eggplant found fault with everything except this — HIS MIRROR

WEATHER

EUROPE	HIGH	LOW	ASIA	HIGH	LOW
Albuquerque	45	35	Beijing	32	20
Amsterdam	45	35	Bombay	32	20
Athens	45	35	Hankow	32	20
Baltimore	45	35	Hong Kong	32	20
Boston	45	35	Kobe	32	20
Buffalo	45	35	Manila	32	20
Chicago	45	35	New Delhi	32	20
Cincinnati	45	35	Seoul	32	20
Cleveland	45	35	Singapore	32	20
Dallas	45	35	Taipei	32	20
Denver	45	35	Tokyo	32	20
Detroit	45	35			
Houston	45	35			
Los Angeles	45	35			
Madison	45	35			
Memphis	45	35			
Minneapolis	45	35			
Miami	45	35			
Mobile	45	35			
New Orleans	45	35			
New York	45	35			
Philadelphia	45	35			
Pittsburgh	45	35			
Portland	45	35			
San Francisco	45	35			
Seattle	45	35			
St. Louis	45	35			
Washington	45	35			
Wichita	45	35			
Zurich	45	35			

MONDAY'S FORECAST - CHANNELS SHOW, FRANKFURT: Foggy, Temp. 7-11; LONDON: Foggy, Temp. 7-11; MADRID: Cloudy, Temp. 12-18; PARIS: Foggy, Temp. 7-11; ROME: Cloudy, Temp. 12-18; TOKYO: Foggy, Temp. 7-11; HONG KONG: Foggy, Temp. 7-11; SINGAPORE: Foggy, Temp. 7-11; SYDNEY: Foggy, Temp. 7-11.

SPORTS

SPORTS BRIEFS

Three Indoor World Track Records Are Set

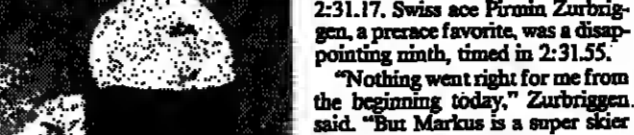
LOS ANGELES (Combined Dispatches)—Greg Foster set a world record in the 60-meter hurdles an international track meet here Friday night. Meanwhile, in Simmerath, West Germany, Carlo Thränhardt set an indoor high-jump best of 7 feet, 10 1/2 inches (2.40 meters), and in Indianapolis Ken Lowery lowered the 500-meter standard to 1:00.17.

Langer Coasts to 1-Shot Lead in Hope Golf

LA QUINTA, California (AP)—West German Bernhard Langer coasted to a 2-under-par 70 Saturday for a one-stroke lead over Mark Calcavecchia after four rounds of the Bob Hope Classic golf tournament.

Wasmeyer and Quittet Ski to Surprising Victories

Compiled by Our Staff From Dispatches WENGEN, Switzerland—Giant slalom champion Markus Wasmeyer of West Germany upset the favored 1985 giant slalom gold medal at the World Championships that begin Jan. 25 in Crans-Montana, Switzerland, clocked 2 minutes 29.62 seconds on the smooth, 2.5-mile (4-kilometer) Lauberhorn run, which dropped 3,371 feet (1,027 meters) into a postcard-perfect valley in the Eiger glacier area of central Switzerland.



Catherine Quittet, skiing to her first World Cup victory.

It was the second straight day the West Germans had done well. They took four of the top seven spots in Friday's downhill at Pfronten. Although the cup circuit has been dominated by the Swiss for much of the season, the best they could manage Saturday was Vreni Schneider's sixth-place finish of 1:18.67. Maria Walliser of Switzerland, the leader of the women's overall standings, struggled to a ninth-place finish, her worst this season.

Swiss Win Both Slaloms

Compiled by Our Staff From Dispatches BISCHOFSWIESEN, West Germany—Maria Walliser skied to a convincing victory Sunday in a women's World Cup giant slalom race in which Swiss teammates took the next three spots, while Wengen, Switzerland, compatriot Joël Gaspoz won his first World Cup slalom with a skillful performance on the steep Lauberhorn course.

Esposito Wins Title

PHOENIX, Arizona (UPI)—Louie Esposito won the vacant World Boxing Association junior featherweight title Friday night with a fourth-round technical knockout of Tommy Valoy of the Dominican Republic.

PEANUTS



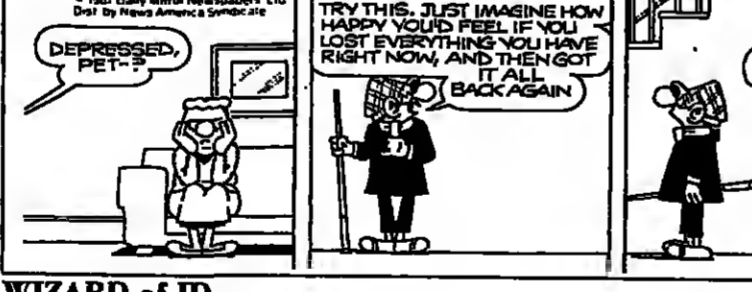
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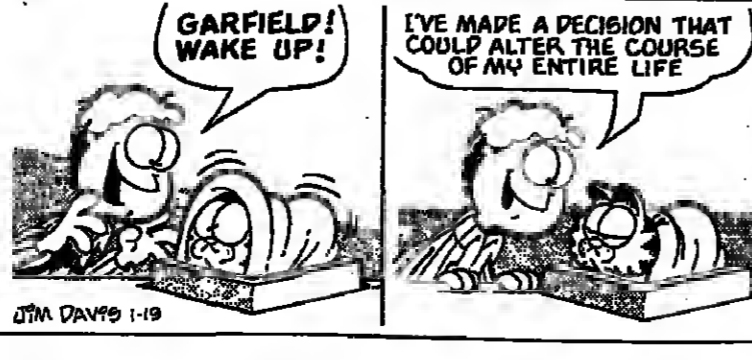
WIZARD of ID



REX MORGAN



GARFIELD



WORLD STOCKS IN REVIEW / Via Agence France-Press

Amsterdam

The Amsterdam Stock Exchange staged a modest recovery last week, as the ANP-CBS general index held firm at 271.1, against 271.3 the previous Friday.

Frankfurt

The Commerzbank index gained 14.9 points to reach 1,928.4 on the Frankfurt stock exchange last week. Investors remained active despite turbulence on exchange markets and a strong Deutsche mark, which penalized West German exports.

Hong Kong

The Hong Kong stock market opened strongly Monday before suffering moderate setbacks later in the week in what dealers said was a correction after surges in the past two weeks.

London

Severe weather failed to discourage a surge in share prices over the past week on the London Stock Exchange.

Milan

Milan's COMIT index rose by 2.09 percent to 729.46 points last week, canceling out losses caused the previous week by the crisis in the European Monetary System.

Paris

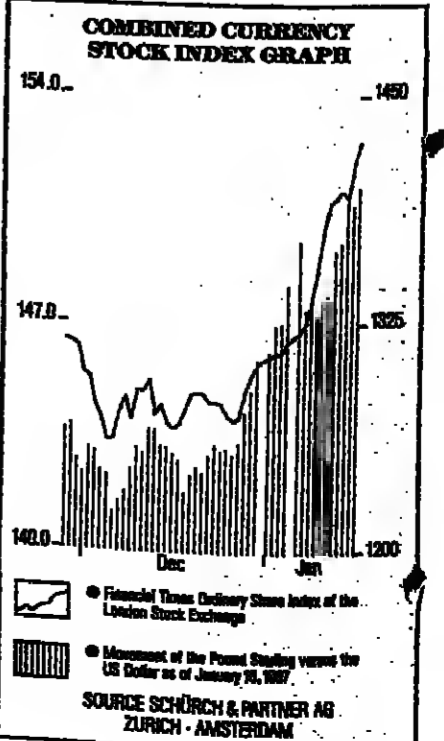
Prices on the Paris Bourse advanced 2.5 percent last week, with the CAC index moving up to 417.5 from 407.2.

Tokyo

Share prices on the Tokyo stock market closed out the week at record highs.

Zurich

Share prices lost ground last week in response to the depreciation of the dollar and what was described by specialists as a feeling of insecurity in the market.



REBOARD

SPORTS

'Stripes' Has New Zealand Against the Wall

Conner Wins by 3:38; Kiwis Trail, 3-1, Call for Time-Out After 'Disaster Day'

By Angus Phillips
Washington Post Service
FREMANTLE, Australia — For three and a half months, New Zealand built a record of unparalleled efficiency on the water in its first America's Cup campaign.

"We had what we call a disaster day," said skipper Chris Dickson. "We're just happy to have the boat back in one piece and all 11 men home safe."

But he wasn't happy about the 3-minute, 38-second thrashing at the hands of Dennis Conner's Stars & Stripes, which leaves New Zealand down by 3-1 in the best-of-seven final series to pick a cup challenger.

Meanwhile, in the defender final, Kookaburra III continued its domination of Australia IV with a 2:06 victory that produced a commanding 5-0 lead in the best-of-nine series to pick a defender (see story, below).

The New Zealanders called for their second and last day on Saturday to regroup, to install a new mast, to decide on a new mainmast and to try to find a way to stay alive in a regatta they had been favored to win only four days previously.

Much went wrong on a wild day of big winds and six-foot Indian Ocean seas, but most of the problems were traced to one massive wul at the end of the second leg, when New Zealand's hopes of a triumph went out with a bang, not a whimper.

New Zealand trailed by half a minute at the time and was having minor gear problems as it sped downwind under a ballooning spinnaker in 25 knots of wind.

As the New Zealanders approached the second turning mark, a zipper on the mainmast stuck open, making the sail too full, and a man was aloft trying to zip it shut. When the job took too long, the crew wound up barreling down the buoy unprepared to douse the spinnaker and still maneuver around the buoy under control.

"The only thing I can call it is a crash jibe," said Dickson of what happened next — when the 25-foot-long (7.62-meter) aluminum boom at the bottom of the mainmast came flailing across the deck out of control as the boat turned sharply before the wind.

Crashing uncontrolled under a tremendous load, the boom and mainmast knocked out electronic instruments at the transom and the top of the mast, clipped off the backstay that helps support the mast, broke the masthead crane

that holds the mainmast up and bent the mast. New Zealand was in chaos. "We were happy to have a rig [mast] in at all," when it was over, said Dickson.

Crippled, New Zealand went limping into the wind up the third leg with sails flapping and broken rigging flopping crazily, while Conner's crew opened a decisive lead.

It was an uncharacteristic foul-up, for New Zealand has boasted the best crew work of any team all season after spending nine months practicing here. What went wrong?

"They looked nervous out there," said Tom Whidden, tactician for Stars & Stripes. "Maybe the Maori dancers trying to put a spell on us this morning backfired on them."

Indeed, it had been another morning of unbridled excitement around the New Zealand dock, where thousands gathered to see the boat off, including 20 native New Zealand tribesmen in a Maori war canoe chanting a dirge.

But as it turned out, Conner's team suffered not a whit of trouble, sailing effortlessly through the heavy winds, which topped out at 28 knots, in their smoke-free yacht. Meanwhile, the New Zealanders had more bad luck coming.

Ten seconds after they crossed the finish line, their mainmast exploded as a seam gave way under the stress.

The mast took half an hour to clear. The tattered sail was stuck in the hoisted position, but because of the earlier damage there were no lines to haul a man to the top to get it down. Dickson said that after much consultation, "We decided there was no safe way to do it, so we looked around for volunteers" and sent bowman Earle Williams aloft.

Williams took several minutes to climb up the 90-foot mast, giving the last 25 feet hand-over-hand with no support.

At top, hanging by one hand and two legs, he backed the head of the mainmast off with a pocketknife until the tatters came tumbling to the deck.

The crash jibe bent and ruined the mast, so on Sunday the New Zealanders were to fit a new one. They were also to work on repairing the destroyed electronic gear and pick a replacement for the mainmast, which was Dickson's favorite.

The last-minute fiasco should do nothing for Dickson's confidence entering what could be his final race of the 1987 cup.

His confidence may already be on the ebb. "The way the Kiwis sailed today was very, very curious," said Whidden, who expected them to attack Stars & Stripes aggressively after they won the third race of the series Friday on the strength of superior tacking and maneuvering.

But on Saturday, Dickson allowed Conner a clear path at the starting line, and the California skipper sped out to clear air.

Dickson let it become a drag race instead of a tactical duel, playing to Conner's strength.

Halfway up the first leg, Whidden turned to his skipper and said: "We've got 'em, as long as we don't screw up."

Dickson apologized to Conner for the poor performance, but Conner, relieved to be in a commanding position in the series, said happily: "That's quite all right."

Barring a complete turnaround, Conner seems assured now of getting his chance to win back the cup. In 1983, he was the first American to lose it, when his Liberty fell to Australia II.

In a celebratory move, Conner invited fans clustered around the gate to his dock to come inside

Saturday night and look around, but the move backfired when one unscrupulous guest used the opportunity to try to sneak a glimpse under the security shrouds at Conner's secret keel.

Whidden caught the interloper in the act, grabbed him by the scruff of the neck and threw him out, saying: "You're out of here, pal. We like our boat."

Surprisingly, Dickson confirmed that the New Zealanders, if they are eliminated, are inclined to help the Australian defender prepare for the cup races against Conner, rather than offering aid to Stars & Stripes.

Historically, challengers help one another and defenders help each other gear up for the cup finals. But Dickson says his syndicate chiefs think it would be in their interests, if the New Zealanders don't win, for the cup to remain in the Southern Hemisphere, where New Zealand can mount another moderately priced challenge in 1990.

Conner said if he were to be eliminated, he would offer his help to the New Zealanders, as is the tradition.

Conner wouldn't say so, but others in his camp said the New Zealanders could provide the information to an Australian defender about Stars & Stripes' strengths and weaknesses.

As Colin Beahel jibed around the wing mark, Australia IV's spinnaker pole swung loose, striking bowman Damian Fewster on the head. Beahel struggled to keep the yacht from spinning out of control. Fewster fell to the deck on his hands and knees, holding his head, as Beahel battled to reset the spinnaker. Fewster sustained a minor concussion and scalp lacerations.

Kookaburra III then gained 45 seconds to round the sixth buoy with a 1:38 edge. Murray, reveling in the blustery winds, opened a 2:01 bulge at the seventh buoy.

Australia IV called a lay day Sunday, during which its crew will try to improve its performance, said spokesman Vern Reid. "Obviously we will continue to fight until the last race," he said.

Following earlier losses to Kookaburra III — by 1:34 and 0:46 — Reid said, "It's becoming obvious that in the end and on conditions experienced over the past two days

stretched it to 1:12 by the third mark."

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LANGUAGE

Some Arcane Prolepses

By William Safire
WASHINGTON — One of the last of the leading personalities of World War II visited Taiwan last month. Madame Chiang Kai-shek, 86, was asked by her stepson, President Chiang Ching-kuo, to issue a statement endorsing his political reforms.

media should be ashamed of its liberal bias. (In that last sentence, the prolepsis is the unfair assumption of her likely argument, and the paralepsis is the saying of what is said to go without saying.)

John Adams's Eclectic Music

By K. Robert Schwarz
New York Times Service

NEW YORK — At first glance, the music of John Adams appears to consist of irreconcilable elements. Long an admirer of Minimalism, Adams has absorbed and personalized a musical language that derives from that of Steve Reich. Yet he has taken the Minimalist heritage and dispensed with its austere rigidity, employing its gestures within a highly expressive, almost Romantic context.



Romantic Minimalist composer Adams: "I embrace the whole musical past."

Perhaps that is because the two sides of Adams's music reflect two equally different parts of his personality. Like most composers with an abiding interest in Minimalism, Adams is fascinated with repetitive rhythmic patterns. Yet he is also thoughtful and introspective, spicing his conversation with casual references to Jung and Nietzsche, and that subjective side is equally prominent in his music.

shocked when "Grand Piano Music" proved to be irrelevant and even parodic, filled with echoes of marching-band music. Adams, however, still defends "Piano." "I truly love it, and in the long run, people will find more outrageous originality in it than in either 'Harmonium' or 'Harmonielehre'."

His "Phrygian Gates" for piano (1977-78) and "Shaker Loops" for string septet (1978) betray Reich's influences in their repeated patterns, but their directionalized sweep and impassioned climaxes already indicate Adams's own voice.

But "Nixon in China" also addresses the larger issue of opera's role in contemporary musical life. Rather than seeing a danger in selecting such a recent topic, Adams feels that "this is what opera should be doing. The movies, after all, do it all the time. Opera is so completely out of touch in this century; it has lost its relevance to our experience. We hardly need another opera on the Shakespeare play or a Greek myth."

POSTCARD

An Island of Nutmeg

By Mark Kurlansky

ST. GEORGE'S, Grenada — So close to South America and so far from the United States, Grenada has remained the Caribbean's perfect little island through coups, revolutions and invasions, or if you prefer, rescue missions.

a drink made from puree of a sea-wood with milk and spices. It tastes like a nutmeg milkshake. The only concession most restaurants make to foreigners is the powerful homemade hot sauce is put on the table in a bowl for Grenadians to heap on their food and foreigners to avoid.

MOVING
ALLIED WORLDWIDE MOVING
PARIS: DESROCHES (1) 43 43 23 64
NICE: COMBARE GIBERALE 93 21 35 72

ANNOUNCEMENTS
WINTER ENTERTAINING: New series of French cooking in English.
ALCOHOLIC ANONYMOUS in English, French, Spanish, Italian, Portuguese, Dutch, German, Danish, Swedish, Norwegian, Finnish, Greek, Hebrew, Hindi, Urdu, Persian, Russian, Chinese, Japanese, Korean, Vietnamese, Thai, Malay, Indonesian, Tagalog, Filipino, Hindi, Urdu, Persian, Russian, Chinese, Japanese, Korean, Vietnamese, Thai, Malay, Indonesian, Tagalog, Filipino.

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MONACO
Center of Monte Carlo
SPLendid 3RD-LEVEL APARTMENT for sale, in centrally located, modern building with large living room, dining room, 2 bedrooms, fully equipped kitchen, decorated to the highest standard.

REAL ESTATE FOR SALE
SWITZERLAND
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